

**KEY FEATURES AND ACCOUNTABILITY OF  
PUBLIC PRIVATE PARTNERSHIPS  
IN THE CONTEXT OF INDONESIAN PUBLIC ASSET MANAGEMENT**

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## **Abstract**

Limited financial resources have led many governments including Indonesia to find alternative ways to fund their development. Public Private Partnerships (PPP) offer governments substantial benefits by accessing the private sector's funding, knowledge, and experiences. In regard to public asset management (PAM), PPPs are expected to address the problem of surplus assets. However, the involvement of the private sector through PPPs in public affairs sparks accountability questions.

The research aims to explore PAM and PPP practices in a developing country using the concepts of governance and accountability. Compared to developed countries, few studies have been conducted in the context of developing countries. In the current literature, numerous studies explain PPPs yet only a few investigate PAM practices. Moreover, even less research discusses accountability concerns regarding PPP practices in the PAM context. The research answers the questions 'How and why have PPPs been adopted in the Indonesian PAM context?' and 'What are the accountability challenges of PPPs in Indonesia's PAM?'.

The multiple case study approach underpins the research design. Four cases have been studied because of their diverse and influential criteria where semi structured interviews, government documentation and publicly available information are the sources of information. The information gathered is categorised and analysed to identify the emerging themes which are discussed further through the views of the current literature on PAM, PPPs and accountability in order to deliver the findings.

The research presents the development and challenges of the Indonesian PAM. Despite its adoption of the principles of transparency and accountability, its PAM still suffers from the problem of surplus assets, asset security and flaws in current policies. PPP adoption is viewed as effectively addressing the surplus asset problem, yet the adoption faces the major difficulties of inflexible regulations and procedures and inappropriate organisational structures. Furthermore, accountability issues arise in many stages of PPP. The research argues that factors of risk allocation, cost benefit analysis and expertise are the factors which most influence accountability. There are also accountability problems in relation to compliance and transparency.

The research contributes to knowledge in three ways. First, it extends the understanding of governance and NPM concepts at the national level of PAM practices in the developing world.

Second, the focus at the project level on property-based PPPs, expands the discussion of asset-based PPPs by presenting the perspectives of different types of actors. Last, in the debate about accountability theory, the research proposes new evidence about the factors that influence accountability.

With regard to policy and practice, the study advances three ideas to be discussed further. It proposes that the Indonesian government clearly reduce the impact of past unsound PAM practices, which has discouraged government officers from taking further actions in managing a large number of surplus assets illegally utilised by other parties. To address the problems of PPP adoption, regulations and policies need to be more flexible. Along with accountability and transparency, flexible policies are argued to foster the PPP adoption. Last, as dynamic attributes in both the government and private sector, the policies issued should encourage innovations. Measurement should be designed to promote innovative actions among government officers in managing public assets.

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## List of Abbreviations

ANAO	Australian National Audit Office
Bappenas	Badan Perencanaan Pembangunan Nasional (Indonesian National Development Planning)
BMN	Barang Milik Negara (State Owned Assets)
BOO	Build Own Operate
BOT	Build Operate Transfer
BPK	Badan Pemeriksa Keuangan (Supreme Audit Board)
BPS	Biro Pusat Statistics (Statistics Indonesia)
CCPPP	Canadian Council of PPPs
DBFO	Design Build Finance Operate
DBO	Design Build Operate
DGSAM	Directorate-General of State Asset Management
GBK	Gelora Bung Karno Sporting Complex
GDP	Gross Domestic Product
GoI	Government of Indonesia
IPSASB	The International Public Sector Accounting Standard Board
JPPH	Jabatan Penilaian dan Perkhidmatan Harta (Valuation and Property Services Department of Malaysia)
MoF	Ministry of Finance
NIU	National Infrastructure Unit – New Zealand
NPM	New Public Management
OECD	Organisation for Economic Cooperation and Development
PAM	Public Asset Management
PMD	Property Management Division
PPIFAF	The Public Private Infrastructure Advisory Facility – World Bank
PPPs	Public Private Partnerships
PWGSC	Public Works and Government Services Canada
TAM	Total Asset Management

# **Chapter 1**

## **Introduction**

### **1.1 Research Setting**

A large variety of assets including infrastructure are owned and operated by governments around the world, but different perspectives exist on how those governments view public real-properties or public assets. Some believe that a large number of real properties under their control indicate how rich they are. Indeed, real properties are valuable assets for governments in delivering services for their people, and those assets could be utilised as leverage for a government budget. However, there are underlying risks in holding large real property assets (Grubišić, Nušinović & Roje 2009; Tanzi & Prakash 2000). The assets could be seen as a risk due to maintenance costs and as a potential mismanagement problem.

New theories have emerged in public sector management and governance in recent decades, including in public asset management (PAM) where several perspectives have been adopted. Organisational factors and performance measurement are mostly the focus of these perspectives (Tywoniak et al. 2009). In PAM, the asset affairs are viewed throughout their lifecycle starting from asset planning, procurement, use and utilisation until the asset is transferred or disposed of. Performance, accountability and public satisfaction are among many principles applied under the banner of New Public Management (NPM) which is actually not a new concept anymore since it has been discussed for decades (Kaganova, McKellar & Peterson 2006). Those NPM principles are beneficial in addressing the challenges of PAM.

One of PAM's challenges in developing countries including Indonesia is in dealing with surplus or underutilised assets (Hanis, Trigunarsyah & Susilawati 2011). Moreover, not only in developing but also in affluent countries, governments frequently fail to identify surplus or underutilised real property assets (Barton 2007; White 2011). Once they are identified, questions arise about how to address the problem and how accountable are the government's actions. The surplus or underutilised assets can either be utilised or disposed of by selling to unlock government capital. Yet, the second option raises other issues (Kaganova & Polen 2006). How does the government fund the development of surplus assets? Could the government invite the private sector to use the assets?

The involvement of private sector in utilising surplus assets is often preferred due to the limitations of government budgets. Public private partnerships (PPPs) as a collaboration between the government and the private sector offer opportunities as well as challenges for both parties in achieving their individual objectives. The government provides surplus real properties to be developed, and the private sector partners can deliver funding, expertise and risk sharing. Partnerships between the government and the private sector could take various forms depending on the agreement reached. PPPs are hybrid organisations where public organisations collaborate with private parties in managing public assets for the public interest.

However, PPPs as hybrid organisations raise accountability concerns. The signatories to PPPs have different objectives. On the one hand, the government must put the public interest above all other measures. On the other hand, the private sector's prime goal is profit maximisation for shareholders. Nevertheless, both parties do have common grounds in many different aspects and principles. They both seek efficiency, economy, and effectiveness in every business activity (Chung 2016; OECD 2008). The differences and the similarities regarding objectives and principles give rise to accountability issues with the use of PPPs (Demirag & Khadaroo 2008; Forrer et al. 2010; Shaoul, Stafford & Stapleton 2012; Steets 2010; Watson 2004).

## **1.2 Research Context**

The approaches to how governments worldwide manage their properties have changed in recent decades, where the significance of the property assets has been more recognised (Kaganova & Amoils 2020). Five motives can be identified as the drivers of those changes: cost efficiency, asset performance, shifting of political and ideological agendas, new inventions in technology and business operations, and environmentally friendly policies (Kaganova & Amoils 2020). Several of those drivers can be identified with the concept of NPM which features efficiency, effectiveness, and economy (Harrow 2005) and so fit into the NPM premises (Hood 1995).

Emerging countries such as Indonesia have implemented some NPM principles especially in involving private parties in utilising their surplus assets. To some extent, in comparison with practices in developed countries such as Japan and Australia, there are differences in how the Indonesian government views and treats surplus assets. There is a tendency for the Indonesian government to keep their surplus assets in their portfolio (Prayoga 2016). To address the funding problem in asset utilisation, the Indonesian government has put PPPs into practice.

Post-Soeharto Indonesia has experienced public sector reform in a quest for improved performance, governance, and accountability. An early reform milestone is in the treasury and finance sector which introduced three laws regarding the state treasury, the state finance, and the auditing of state finance. The state treasury law became the basis for Indonesian PAM, and the laws have adopted the basic NPM principles by promoting transparency and accountability (GoI 2004c).

The Indonesian Ministry of Finance (MoF) by law has been given vigorous control in PAM reform (Hadiyanto 2009). It has the authority to take over surplus or underutilised assets from other ministries. Every asset utilisation through a PPP contract must obtain the MoF's approval before the tender process. There is also authority for monitoring and evaluation given to the MoF throughout the contract period. The role of the MoF in the PAM and its relationship with other ministries will be discussed further in the policy framework section.

Given the importance to Indonesia of the optimal use of its numerous real property assets, the thesis assesses the reasoning for and practices of PPPs in the Indonesian PAM context as well as the accountability concerns which arise. In order to have an in-depth understanding, four cases of Indonesian PPPs have been selected and studied. They are an office building, a shopping centre, an international airport, and a sports complex.

### **1.3 Thesis Proposition and Research Questions**

This thesis aims to study the reasons behind and the process of adoption and practices of PPPs in the Indonesian PAM context. In the beginning, the thesis analyses the implementation of NPM concepts in managing public assets. The principles, objectives and approaches of PAM are investigated. In Indonesian's case, the government's bureaucratic reform as part of its public-sector reform changed the course of its PAM. This reform altered how government agencies view and manage public assets, however some resistance still exists.

Furthermore, regarding how the government manages a surplus or underutilised asset, the thesis investigates the advantages and drawbacks of PPPs, types of PPPs that have been implemented in the PAM context, and the compliance challenges of PPP implementation. How well PPPs have been implemented is explored by studying the pre-existing conditions, underlying problems and the effect of Indonesian public-sector reform.

Finally, as PPPs are believed to raise accountability concerns, it is essential that the thesis explains and analyses how several aspects of PAM as well as transparency influence the accountability of PPPs. The thesis applies several approaches from current literature to identify and analyse factors influencing the accountability concerns. These approaches will be discussed further in the methodology and the literature review chapters.

Addressing the issues above, the thesis is guided by the following research questions:

- 1) How and why have PPP practices been adopted in the Indonesian PAM context?
- 2) What are the accountability challenges of PPPs in Indonesia's PAM?

Answering the first question, the thesis addresses the recent development of PPPs and PAM, the rationales and challenges of PPP adoption and the influential characteristics of PPPs to be considered in PAM. To answer the second question, the thesis analyses what aspects influence accountability in PPPs and how transparency affects accountability.

## **1.4 Scope and Research Approach**

The thesis considers PPPs in the Indonesian PAM context after the enactment of the 2004 State Treasury Law (GoI 2004c). This law is seen as the first milestone of Indonesian public sector reform in PAM. There is an analysis of conditions, before and after the law was enforced to reveal the significant differences. The PPP process is the unit of analysis of this thesis, in which the reasons for and stages of PPPs are examined to identify the accountability issues that might arise. The problems of PPPs in PAM can be found during the initiation, set-up, operation, and termination. The problems, as well as their origins, are formulated based on the perceptions and experiences of government officers and private sector parties involved in PPPs both in policy making and implementation.

The thesis considers the government, the private sector parties, and the social construct of the PPP adoption and their accountability issues which conform to anti-foundationalism or constructivism as this will be discussed further in Chapter 5 Research Methodology. The relationship that exists between the research subject, which is PPPs in Indonesian PAM, and the researcher confirms the epistemology position. The nature of social construction can be drawn by the interaction between the researcher and the participants (Guba & Lincoln 1994). The research strategy mostly emphasises an inductive orientation in interpreting the social phenomena that are constantly changing and it employs a qualitative research strategy.



Four cases of PPPs utilising public assets are selected to obtain an in-depth understanding of every stage of PPP adoption. Those cases are nominated purposefully and are argued to reflect diverse and influential criteria. The cases are an office tower, a shopping centre, a sporting complex, and an international airport. One of them is the largest PPP contract in Indonesia in terms of an asset market value of more than fifty billion rupiahs. Two of the cases offer the most common asset utilisation in commercial activities by renting office spaces and shops. One case presents valuable information about how the Indonesian military transforms itself fulfilling the direction of Indonesian public asset reform.

Forty participants from five categories were interviewed to understand how PPPs are adopted based on their experience and perceptions. Twenty-two participants are Directorate-General of State Asset Management's (DGSAM) officers, five from other ministries, seven from the private sector, five from audit agencies, and one from Indonesian House of representative. For each case study, there are participants from the DGSAM representing the asset manager, from the related ministries as the implementing agencies, and from the private sector as the operator of the utilised assets.

Document analysis and in-depth interviews are utilised to collect data from the multi-case study. The document analysis delivers contextual data in the research field which then is developed in arranging questions for next steps of research (Bowen 2009). Using document analysis offers benefits for the research process because it is considered to be efficient in the collecting process, materials are already available in many institutions, and it is non-reactive and impartial (Bowen 2009). The documents analysed include government policies and regulations, project specific information, and public materials from media coverage regarding government policies and their implementation. There are some inbuilt characteristics of document analysis that are taken into consideration. The documents collected could be too vague and not detailed enough to be deeply analysed. The need for confidentiality and the caution of government officers may prevent access to relevant information.

## **1.5 Significance and Contribution**

The thesis is significant and justified for the following reasons. Firstly, the thesis focuses on the edge of contemporary and prospective discussions on, PAM, PPPs, and accountability. There are six themes of PPP research direction: examining beyond the details of PPPs, elaborating critical explanations, disseminating knowledge, comprehending ex-ante procurement impacts,

understanding worldwide economic problems, and last, dealing with research influence on policy and practice effects (Andon 2012). The thesis extends the critical explanations of PPPs by elaborating the motivations and reasons for PPP adoption in the PAM context. The thesis also focuses on accountability in a hybrid organisation which is seen as one of several thematic frontiers in future research agenda in specific sectors and context (Shaoul, Stafford & Stapleton 2012).

Secondly, there have been studies on PPPs and accountability in emerging countries (World Bank 2014) but until recently no research that focuses on PPPs in the context of Indonesian PAM has been found. Therefore, this thesis is genuine in delivering a significant contribution to analysing practices in emerging countries, especially in Indonesia.

Next, this thesis is considered as applied research which discusses the present-day development of policy and practices of PPPs in the Indonesian PAM context. The thesis contributes to the knowledge of public policy making and government practices and also provides further evidence regarding the adoption of PPPs from the PAM perspective. In terms of public policy making, the study delivers a new outlook from the people involved: Indonesian policy makers, implementing agencies, the private sector, auditors, and legislators. The study gathers ideas and views from relevant parties which could enhance the discussion of accountability in PPPs in Indonesian PAM.

Finally, in terms of methodological advancement, the thesis applies a qualitative approach while most PPP research on Indonesia utilises quantitative approaches. The thesis is underpinned by a constructivist paradigm where the qualitative approach seeks a deeper understanding of the real-life experience of the participants intensely involved in the phenomenon of PPPs in the context of Indonesian PAM. The thesis enriches the literature by providing the perspectives of the key actors (Bryman 2012).

## **1.6 Thesis Organisation**

The thesis presents the results of the research in nine chapters, with supporting documentation in appendices.

The present chapter has summarised the thesis and provides the background to the research. The thesis proposition and research questions are briefly discussed to guide the discussion in the following chapters. The scale of the research which studies the PPPs in the Indonesian PAM

context is also presented to guide the discussion. This chapter briefly conveys the rationale, justification, and contribution of the research.

The next chapter outlines the practice of PAM and PPPs in Indonesia and selected countries. The context of the research, which is Indonesian PAM practice, is described. The practices from other selected countries provide information for assessing the practice in Indonesia compared to other countries both developing and developed.

The literature is reviewed in Chapters 3 and 4 where the former discusses NPM and PAM and the latter analyses literature on PPPs and accountability. Chapter 4 also maps the current studies grouped by PAM, PPPs, and governance and accountability, from which the gap in the literature can be identified and discussed in the last section.

Chapter 5 outlines the research methodology elucidating the theoretical and pragmatic reasons behind the selection of the paradigm, research design and method, and data analysis. Due to the nature of the ontological position adopted and its epistemology, the thesis chooses the course of qualitative analysis to assess the research areas. The thesis employs the case study as its research design and selects four case studies based on their diversity and influential criteria. To collect data from those four cases, document analysis, semi-structured interviews and publicly available materials are employed as the research methods.

The findings regarding the development and challenges of the Indonesian PAM are covered in Chapter 6. It captures and analyses the views and experiences of the participants from different institutions and levels of management. The current problems and progress of the Indonesian PAM provide foundations for further discussion in Chapter 8.

In the following two chapters, the importance of PPPs in the Indonesian PAM is discussed. Chapter 7 focuses on the adoption of PPPs. The chapter gathers, summarises, and compares the perspectives of the participants. It also explains the current problems of PPP adoption and the impacts of those case studies on social and economic aspects. Then in Chapter 8, the accountability issues surrounding PPPs are explored. This chapter draws interesting facts about how the participants view accountability, transparency, and legal compliance. It also discusses factors influencing PPP accountability and its forms concerning the stages of a PPP.

The findings from the previous three chapters are discussed and synthesised in the penultimate chapter by investigating what the existing literature says about the findings. The discussion starts

with the analysis of the current Indonesian PAM and its differently perceived challenges. Then the chapter discusses the motives and challenges of PPP adoption and analyses how accountability, transparency and compliance are practised in PPPs.

The concluding chapter assesses the thesis findings and delivers the findings' implications for both the knowledge and practice. The chapter also indicates the research limitations and suggests possible further studies in these fields.

## **Chapter 2**

### **Public Asset Management and Public Private Partnerships Practices**

#### **2.1 Introduction**

This chapter outlines the context of the research by providing an overview of PAM and PPP practices in Indonesia. For the purpose of comparative analysis, there is also discussion of how other countries are managing their public assets and involving their private sector in infrastructure development.

The second section of the chapter introduces the characteristics of Indonesia by providing relevant preliminary information. Then the chapter summarises PAM practices in the country since the early years of the Soeharto era until recently. The summary also briefly describes the DGSAM, an institution under the Indonesian MoF which manages all central government assets. After that, the practices of PAM from selected countries are outlined for the purpose of comparison and to explain what the country practices. A discussion of the motives and development of PPP practices in the country follows. The Indonesian version of PPPs is also compared and analysed in relation to other countries' practices.

#### **2.2 Indonesia, the Country Profile**

Indonesia is the largest country in the South East Asia region both in total area and population. its population density can be seen in Figure 2.1. Having a large percentage of areas of water, Indonesia has great challenges to provide basic infrastructure for more than a quarter of a billion of its people. These people live in more than fifteen thousand islands with a disproportionate population density which has added more problems to fulfilling their needs. Almost 80% of the country's population live on the island of Java and produce around 60% of the national gross domestic product (BPS 2018).

Since its independence in 1945, Indonesia's geopolitics can be divided into three eras namely the revolutionary period, the new order regime, and after the reform movement. The first era lasted for about two decades when Indonesia faced its independence wars against the Dutch and armed rebellion from many separatist movements, religious groups, and a communist party. After 1966, under the Soeharto regime, Indonesia was ruled by an iron fist to maintain its economic stability by denying freedom of speech and democracy. In this second period, the young nation could

develop for the first time its economy and benefit from its rich natural resources such as oil, gas, and minerals. However, due to rampant corruption and political nepotism, the blessing of natural resources did not increase economic activities as significantly as it should have although the massive income from the 1980s oil boom made Pertamina, a state-owned company, a major cash cow for the regime.

**Figure 2.1 – Indonesian Population Map in 2017**



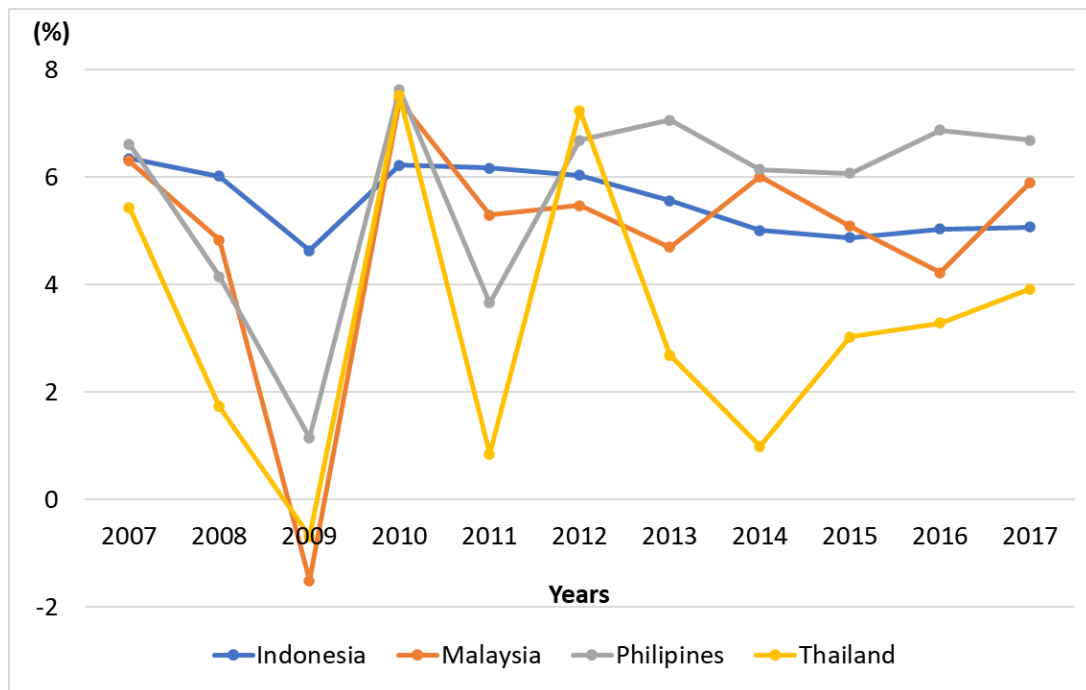
Source: BPS-Statistics Indonesia (2018)

The regional monetary crisis hit Indonesia in 1997. The exchange rate of rupiah to the US dollar was hit the hardest amongst Asian countries from IDR2,500 for USD1 prior to the crisis, into almost IDR20,000. The economic crisis turned into political turmoil as student movements began demanding democratic reform to the regime. The people power dethroned Soeharto one year later and he was succeeded by his deputy as an interim president. Habibie, as the successor conducted reforms in many sectors including the legal, political, and financial. He ensured freedom of speech as part of his agenda and successfully held a general election in the following year. Later in 2004, Indonesia held its first ever direct presidential election.

The monetary-crisis-triggered political reform changed the Indonesia government system into a democratic, transparent, and accountable form of governance in several ways (Heryanto & Hadiz 2005; Lindsey 2004). The national government restructured many of its state institutions by forming new essential bodies and disbanding unnecessary agencies (Lindsey 2004). In addition, the government also established some independent commissions to support its legal system, human rights conditions, and civil society such as the Judicial Commission, the Human Rights

Commission and the Business Competition Supervisory Commission (Lindsey 2004). The reforms were fruitful as can be seen from the long term political stability and economic development of Indonesia two decades in the aftermath of the 1998 crisis (Aswicahyono & Christian 2017; Holidin, Hariyati & Sunarti 2017).

**Figure 2.2 – GDP Growth of Four ASEAN Countries**



Source: World bank (2019)

The Indonesian economy has grown steadily since the political reforms in 1998. However, once considered as one of the Asian Tigers, the nation's economic performance is only average compared to other developing countries in a similar economic situation such as Malaysia, the Philippines, and Thailand. Its latest economic growth is 5.07% in 2017, and in the last decade, the growth is in the range of 4.6 – 6.2%. In the period, Indonesian fluctuated less compared to Malaysia, Thailand, and the Philippines as can be seen in Figure 2.2. With a gross domestic product (GDP) of almost I billion US dollars, it is the largest economic power in the region and the 16<sup>th</sup> worldwide. Its GDP per capita is USD 3,846 (current), which is still lower than those of Singapore, Malaysia, and Thailand.

#### *Corruption and its root cause*

Despite efforts with establishing transparency and accountability after the 1998 regime-change, a number of problems still loom within public sector reform in Indonesia, and the problems still

exist until recently but in a different magnitude. Irregularities within the government bodies and the parliament still occur. BPK reported hundreds of cases that led to billions of rupiahs of public money lost along with suspicious bank accounts owned by government officials (Detikfinance 2009; Hukum Online 2006).

The nation's corruption perception index of the Transparency International confirms the problem of accountability in the country. In 2019, its index of only 40 from the 100 scale, ranks 85 of 183 countries surveyed by the organisation (Transparency International 2020). Appendix K shows that the country's indices had gradually increased from only 32 in 2012 to 40 in 2019.

In addition, the Indonesian parliament is also viewed as a part of the problem since a study found that it is one of the most corrupt institutions in the country (Mukhtar 2017). Hundreds of members of parliament both from the national and regional houses of representatives have been caught by the Anti Corruption Commission while they were collecting bribery or illegal money (Putra 2016). In the latest, the highest figure of the Indonesian House of Representatives, its speaker was arrested in late 2017 for his involvement in an electronic identity card graft case (Devina Heriyanto 2018). Moreover, law enforcing agencies such as the court and police failed to act. In fact, many officials of those institutions were involved in corruption activities (Suparman 2019).

The corruption problem in Indonesia in the past could be explained by three different factors, namely political, economic and the Javanese culture (Robertson-Snape 1999). Indonesian administration under Soeharto lacked accountability, transparency, democratic institutions, and press freedom. The political system was created to serve unity under Soeharto himself by placing executive, legislative, and judicial institutions under his hegemony. The government also tightly controlled the press where several national presses were banned for their coverage of issues the government was sensitive to (Imron, Sariyatun & Yuniyanto 2016). Next, the Soeharto regime also deeply intervened in the nation's economic activities which generated rent and rent seeking behaviour. Furthermore, elements of the Indonesian economy were highly centralised among Soeharto's inner circle that included his family members, military figures, and businesspeople.

Regarding the role of the Javanese as the ethnic majority in the country, their culture has dramatically shaped the national culture not least because two dominant Indonesian post independent leaders are Javanese (Robertson-Snape 1999). Old Javanese customs, where people are supposed to offer gifts to their rulers, could explain why corruption in forms of bribery is



common. Another traditional custom where clan loyalties are strong, could explain the thriving nepotism and collusion.

Historically, insufficient budgets for almost all government agencies, including salaries lower than the cost of living, are believed to have been a means for the Soeharto regime to obtain loyalty from government officers (McLeod 2008). In regard to military institutions, the regime allowed them to conduct commercial activities to cover the needs of the institutions and the employees. However, it was said that those kinds of activities largely benefited the high-ranking officials and did not increase the living standards of the low rank military personnel.

## **2.3 Indonesian Public Asset Management**

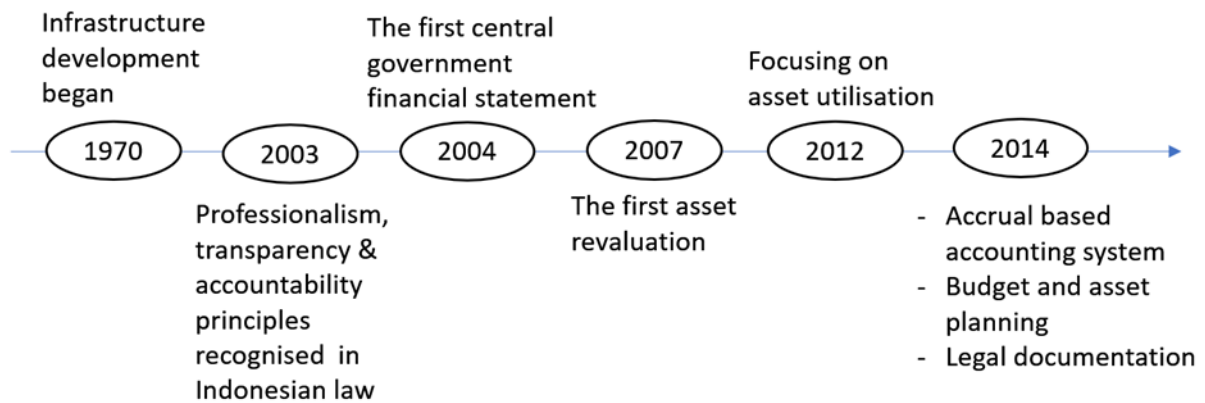
To comprehend the context, Indonesian PAM is discussed in this section. Firstly, the six milestones of Indonesian PAM are explained to understand its historical background. The following section discusses the organisational framework that describes its concept of the asset life cycle. Last, how the current regulations and policies define the principles, the asset classification, and the actors and their activities are discussed.

### **2.3.1 Milestones of Indonesian PAM**

As mentioned above, due to political and physical struggles in the early periods after independence, Soekarno could not pay much attention to the nation's development program (Kingsbury 2002). Nevertheless, he managed to build some mega infrastructure projects. One of them was the largest sporting complex in Asia at that time which was built in the early 1960s. Likewise, in the early years of his term, Soeharto focused on consolidating his power after taking power from his predecessor and the economic development faced a difficult path (Van Zanden & Marks 2013). Five years later, Soeharto managed to show periods of economic recovery and political stability once his five year development plan had been introduced (McCawley 2017).

Due to a lack of infrastructure funding, Indonesia issued a new foreign investment law in 1967 that welcomed overseas investors. Then, within three years, ground-breaking for several infrastructure projects began that made 1970 the first milestone of Indonesian PAM practice (Prayoga 2016). Yet, there was no adequate tool to manage the infrastructure assets. It was not until 2004, that the government implemented its new budgetary system that required its bodies to record their income and expenditure (GoI 2004a). As a result, there was no information regarding assets, liabilities, and government equity as presented in a financial statement.

**Figure 2.3 – Milestones of Indonesian PAM**



Source: Directorate of State Assets (2012)

Post-Soeharto government has experienced public sector reform in a quest for performance, governance, and accountability (Harun, Van Peurse & Eggleton 2012; Jones & Kettl 2003; McLeod 2006; Olson, Guthrie & Humphrey 1998). In promoting accountability, the reform process has emphasised the NPM prime principles of effectiveness and efficiency. One of the early milestones in the process was the passing of three acts on: The State Treasury, State Finance, and the Auditing of State Finances (McLeod & Harun 2014). The State Treasury Law has provided the basis of public asset management reform in Indonesia as it obliges the government to implement transparency and accountability. Milestones of Indonesian PAM can be seen in Figure 2.3.

A financial statement is one of the instruments to indicate accountability and transparency (Bolívar, Galera & Muñoz 2015; IPSASB 2018; Ives 1987). Indonesia issued its first financial statement in 2004 (GoI 2005b). Although the BPK disclaimed giving an audit opinion, the financial statement played an important role in Indonesian PAM. For the first time, the number of government assets could be figured out, and the statement could be utilised for the decision-making process.

Prior to the issuance of its first central government financial statement, Indonesia recognised the principles of good governance in the constitution. The 2003 State Finance Law introduced five principles in Indonesian public sector management, namely result-oriented accountability, professionalism, proportionality, transparency and independence audit (GoI 2003). Following the issuance of the State Finance Law, in 2004 the government issued two laws regarding the

State Treasury and the Audit of State Finance Management and Responsibility (GoI 2004c, 2004b).

Having been prepared with a legal infrastructure yet still having problems with the reliability of asset data in its financial statement, the Government of Indonesia conducted a nationwide asset arrangement program in 2007 (Asset 2012). The four-year program had two main objectives namely the physical examination of assets and asset revaluation. The first was to compare an asset physical existence and condition with the records, the latter was to update the asset's market value. The output of this program was enormously important for PAM decision making such as asset supply side to fulfil requests from government institutions across the country.

In the last five years, Indonesian PAM has focused on three issues regarding asset utilisation, accrual-based accounting, and state-owned land legal certification (Asset 2012). The policy on those issues has been available since 2006 with the issuance of Government Regulation No.6/2006 (PP No.6/2006) regarding State Asset Management. The regulation gives a more comprehensive perspective regarding PAM by incorporating an asset lifecycle concept and its integration with the budgeting aspect. A new institution namely the Directorate-General of State Asset Management (DGSAM) was established to manage central government assets with considerable authority in regulating and giving decisions in every stage of the asset lifecycle.

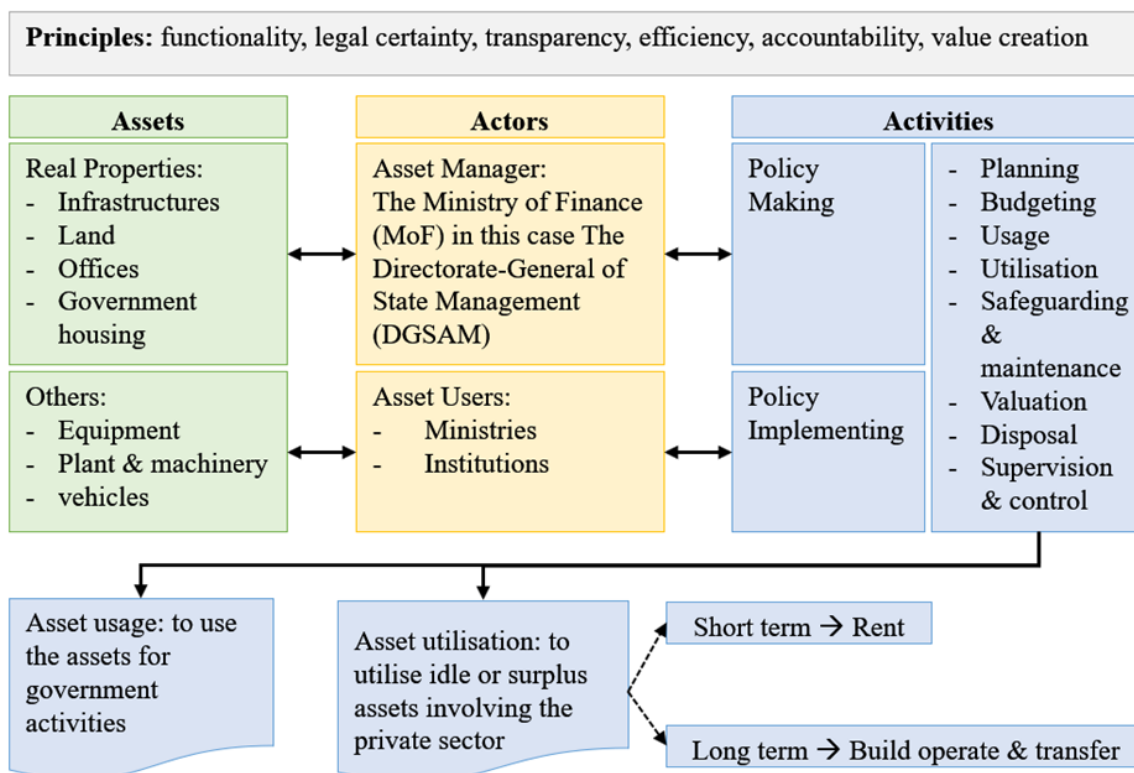
### **2.3.2 The Current Policy Framework**

Current practices of the Indonesian PAM are built on a framework consisting of four aspects namely types of assets, actors, principles, and activities as can be seen in Figure 2.4. The first aspect, government assets are classified into real property and non real property. The real property assets are any type of asset that consists of land or buildings. Government offices, employee's housing, and infrastructure such as road, railways and ports are examples of this type of asset. The use, utilisation and disposal of real property assets are highly regulated. Approval from the Ministry of Finance is required prior to any action taken by other ministries (GoI 2003, 2004c). The terms use and utilisation are differentiated from the perspective of which parties are served by the assets. In contrast, for non real property assets such as vehicles and machinery, the asset users have more room to decide their action.

Next aspect, there are two actors playing the roles of the asset manager and the asset users or asset custodians. The MoF, in this case the DGSAM plays the role of the asset manager where its authority is mainly related to policy making and providing approval in important stages of the

assets life cycle especially for real property assets. Meanwhile, the other ministries as the asset users are responsible for routine activities in maintaining the assets under their custody.

**Figure 2.4 – Indonesian PAM Framework: The Central Government**



Source: GoI (2014)

Third, the principles of the Indonesian PAM are functionality, legal certainty, transparency, efficiency, accountability and value creation (GoI 2004c; Tutik & Widodo 2016). The functionality principle is defined as meaning all government assets must serve the duties and function of the asset custodians. Otherwise, the assets are categorised as idle or surplus that require the custodian to utilise them by commercialising or to hand over the asset to the DGSAM (MoF 2016b). Legal certainty is considered highly important in Indonesia where thousands of state-owned lands are still not supported by proper legal documents (Jannah 2018). Furthermore, the principles of transparency, efficiency, and accountability have been adopted by the Indonesian bureaucracy not just in asset management but in wider aspects such as its state finance affairs (GoI 2003).

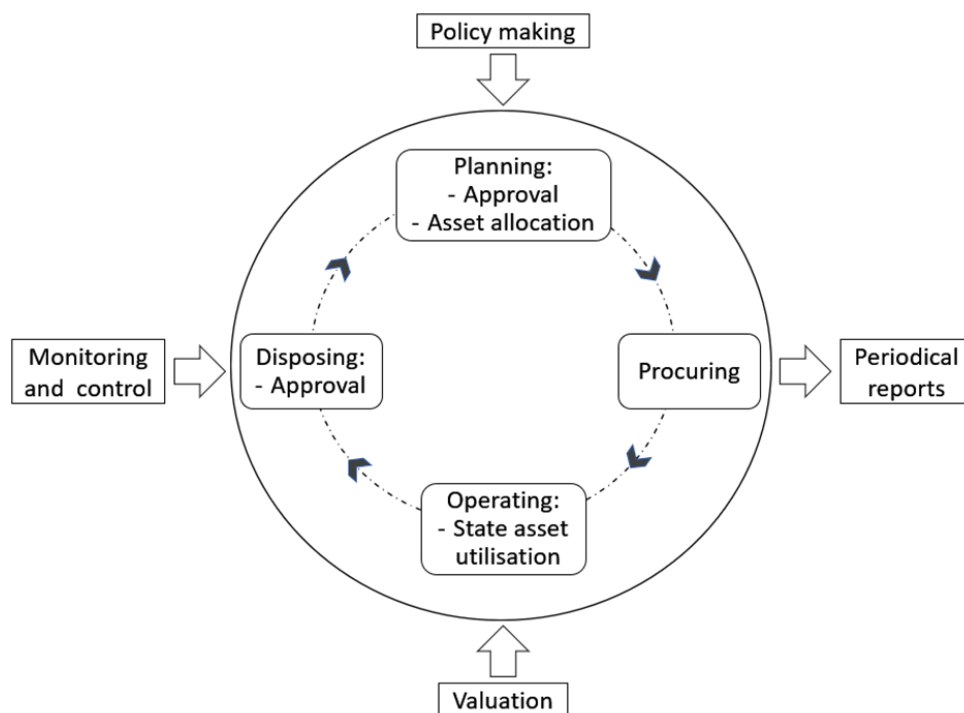
The concept of value creation considers that every asset owned by the government should contribute to national development. In relation to this concept, the PAM policy in this country recognises two terminologies regarding the use of assets. The asset use is defined as the use of

an asset by government entities in conducting their duties and functions. Meanwhile, the regulation refers to the word ‘utilisation’ to describe the utilisation of state assets by the private sector when surplus or underutilised assets are rented or offered to them (GoI 2014; MoF, MoF 2014).

### *Asset Life Cycle Based Organisation*

The activities in Indonesian PAM adopt the asset life cycle model as depicted in Figure 2.5 which start from planning and budgeting and end with asset disposal. The DGSAM designs the policy and monitors the implementation (MoF 2012a). The institution also has its in house appraisal services that can be assigned to determine the market values of the state assets (MoF 2017).

**Figure 2.5 – Asset Life Cycle in the Indonesian Regulatory Framework**



Source: Abdullah et al. (2012), GoI (2006a)

The role of the DGSAM is particularly significant in the planning and disposing phases. In the planning phase, the DGSAM integrates the need for assets from all government bodies with the budgeting process. In the disposing process, the DGSAM is obliged to verify that the asset is sold based on the market value to prevent financial loss in the transaction. In the operating phase, the role of user institutions is more dominant regarding operational asset maintenance. However, where a government body has surplus assets, it is required to inform the DGSAM and decide the utilisation plan for the asset. The asset surplus comes from either unused or underutilised assets.

Besides playing the role of the policy maker, the MoF also has two other responsibilities in Indonesian PAM namely monitoring and control, and valuation (GoI 2006a). The monitoring and control activities are to make sure that PAM by the state asset users follows the regulations and policies issued by the state asset manager. Meanwhile, the DGSAM conducts valuations in the procuring, operating, and disposing phases. In the operating phase, the valuation is held only for assets which will be utilised by private sector including under public-private partnership contracts.

### *The PPP policy*

By law, the process of PPPs in the Indonesian PAM involves three different actors: the MoF as the asset manager, the ministries as the asset user and the private parties. In addition to those roles, there are auditors and the parliament who monitor the accountability of the Indonesian PAM. The MoF as the asset manager has two important roles in the PPP process as the policymaker and as the policy implementer. As the policy maker, the MoF issues policies regarding Indonesian PAM, and as the policy implementer, the MoF is involved in the operational decisions on asset management such as giving approvals to asset utilisation proposals. Meanwhile, as the asset user, a ministerial office has the authority for managing and administering state assets within their ministry. Last, the role of private parties emerges once they have been selected in the tender process.

All PPP actors are subject to periodic audits for an accountability check. Three audit bodies monitor the PPPs: the internal audit unit of every ministry, the National Government Internal Auditor (the BPKP), and the Audit Supreme Board (the BPK). Those three audit bodies have different emphases and themes regarding their audit activities. At the policy level, the Indonesian parliament, together with the government, has the authority to enact law regarding PAM including PPPs. Nevertheless, at more operational levels, the MoF is fully authoritative.

## **2.4 Public Asset Management Practices in Selected Countries**

Australia, New Zealand, the UK, and Canada are the pioneers of PAM reforms (Anfara Jr & Mertz 2014; Kaganova, McKellar & Peterson 2006; Olson, Guthrie & Humphrey 1998). In Australia, asset management reform has arisen from preceding broader reforms in accountability, productivity, competition and fiscal discipline (Conway 2006). The Australian reform was triggered by the first audit of federal asset management by the Australian National Audit Office

(ANAO) in 1995. As a result, the ANAO suggested five foundations of asset management namely: (1) the integration of decision making in asset management with strategic planning; (2) the adoption of cost, benefit, and risk in asset planning; (3) the recognition of accountability in asset condition, use and performance; (4) the inclusion of options in asset disposal policies; and (5) the establishment of internal control.

Meanwhile, Australian state governments have implemented their own reform programmes. In New South Wales, for instance, the government has adopted Total Asset Management (TAM) which contains a decade-long strategy as a reference for all units of the state government in managing their assets (The Treasury of NSW Government 2006). In their TAM guidelines, the objective of TAM is to promote better planning and management of the state's property in providing future economic benefits as well as delivering public services. All agencies developed their own asset strategy based on the Department of Treasury's guidance covering the three major areas of capital investment, asset maintenance, and asset disposal.

In 2013, the NSW government issued some revisions and additions to its TAM policies regarding asset submission requirements (The Treasury of NSW Government 2013). In the policies, the state agencies are required to submit their asset strategy, TAM data tables, capital proposals, business cases and review reports in October/November. The submissions are an important contributing factors to the budget cycle and the infrastructure development strategy due to their purposes in: evaluating agencies capital expenditures either current or forecast; aligning the state's capital plan with its priorities and service deliveries; assessing the agencies' capital program; advising the Expenditure Review Committee of potential implementation risk in the state's infrastructure strategies; delivering information to the agencies on capital strategies, asset management, and relevant financial risks; and increasing the efficiency and effectiveness of capital project review procedures.

In the developing world, Malaysia has tried to follow the path of developed nations in reforming their PAM by implementing international practices (Xavier 2013) yet the impact has still been limited and problems continue in some areas (Abdullah, Razak & Pakir 2011). Lack of a national context consideration has impeded the public sector reform of the nation and several problems occurred in terms of its strategic approach; resources, knowledge and expertise; performance measurement; information systems; and institutional configuration (Abdullah, Razak & Pakir 2011). Despite those flaws in the implementation, the government has set up a total asset management policy:

which places emphasis on the management of government property assets in a systematic and holistic way in order to achieve optimum benefits from the assets (Yusof 2013, p. 23).

Despite being a federal nation, Malaysian PAM is, to some extent, more centralised compared to that of Australia. Since 2009, the Malaysian federal government has employed Total Asset Management designed by the Prime Minister's office as a reference for all federal entities which is not the case in Australia (Abdullah, Razak & Pakir 2011). Besides that, under the Ministry of Finance, the Valuation and Property Services Department provides services to all government entities regarding property consultancy and property valuation (JPPH 2016).

Government real properties in Malaysia are managed by either the Property Management Division (PMD), a division in the prime minister's office, a custodian agency, or outsourcing parties (Mohd Isa 2001). PMD plays a major role in the country's PAM where it holds most federal government assets. As well, it issues policies and standards that apply to all government buildings regardless of the building's management. A small percentage of government institutions occupy and manage their own office complexes and the rest outsource their property management to private parties through a variety of contracts, one of which is a public-private partnership.

Canada takes a different path to the above countries in managing its public assets. It used to centralise all property management in the hands of the Public Works and Government Services Canada (PWGSC) (McKellar 2006a). Since the enactment of its Federal Real Property and Federal Immovables in 1991, Canada assigns custodian ministries to manage their own properties in almost all aspects but disposal. The custodians have the flexibility to plan, procure, upgrade, maintain, and even lease part of their surplus properties to private parties. They apply regulations set by the Treasury Board as the policy maker for government properties as well as common property regulations regarding health and safety which also apply to private-owned properties. Nevertheless, there are still a small number of properties under the management of PWGSC. Besides as the policy maker, the Treasury Board also establishes and manages the Directory of Federal Real Property, a database of all federal government real properties (Secretariat of Canada Treasury Board 2019).

The custodians in the Canadian Federal Government while managing their properties have options on whether to use the services from PWGSC, private parties, or in-house. However, they are obliged to use some services from PWGSC regarding tax matters. It has become common for



a full-sized custodial ministry to have some in-house property service units, and at the same time hire some property agents as well as obtaining services from the PWGSC. In cases of asset disposal, despite the policy stating that the authority belongs to the PWGSC, for non-strategic assets, the custodial ministries could dispose of the assets in the market through a private agent or the PWGSC.

Another perspective of PAM can be seen in New Zealand where asset management is integral to strategic, operational, service, and financial planning (Audit New Zealand 2010). In a quest for efficiency and effectiveness, the New Zealand national government has highly decentralised and provides considerable flexibility in its PAM to the departments (Dow et al. 2006). Compared to the three countries previously discussed, the custodial departments have significant authority in all phases of the asset life cycle including in the disposal phase. Departments are allowed to dispose of their unneeded assets according to the policy made by the Land Information New Zealand (LINZ) and to use the proceeds of the sale to obtain other properties as they see fit (Dow et al. 2006).

The current PAM policies of New Zealand have delivered positive impacts on several aspects (Dow et al. 2006). They argue that besides its decentralization and flexibility, the policies encourage the departments to adopt private sector practices that coupled with the performance measurement system will deliver more efficient asset management. They also comment that the regulations adopted promote accountability and effectiveness, because the departments are given incentives to openly declare their surplus assets and divest them. In the end, this is believed to improve the position of their asset portfolios. Nevertheless, there are still drawbacks that New Zealand has to face. Its high level of decentralisation has created fragmentation in its asset management expertise, especially in smaller institutions. New Zealand needs to establish a pool of knowledge that collects and shares the experiences of PAM from and to all its custodian departments (Dow et al. 2006).

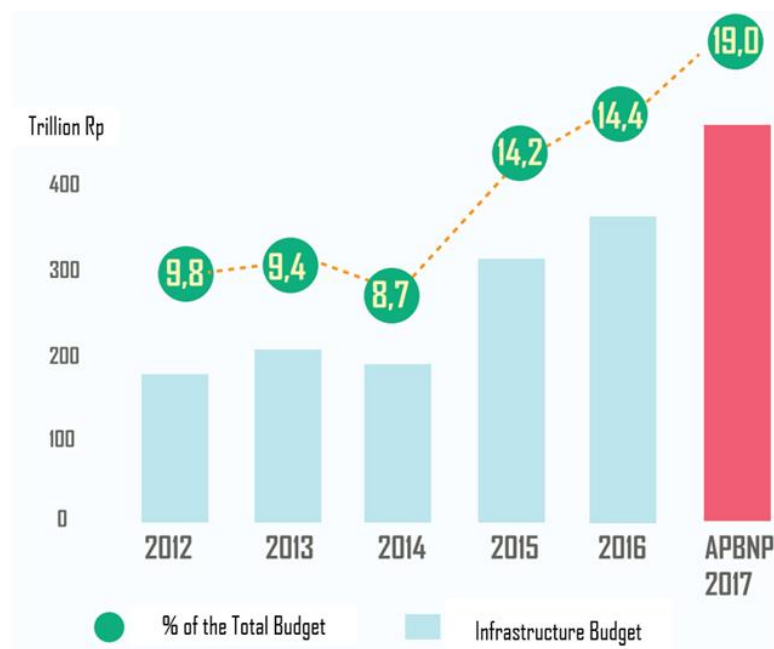
## **2.5 Public Private Partnerships in Indonesian Infrastructure Development**

The Government of Indonesia has set infrastructure as one of its eight sectoral priorities in its long term national development plan (President of Indonesia 2005). Although the infrastructure was positioned as the last sector in the plan, the amount spent by the national government in recent years has spiked. Figure 2.6 shows that in 2014, the spending was only IDR 178 trillion (less than 10% of the current budget) and in five years, it reached IDR 400 trillion in 2017 (almost

20% of the 2017 budget) (Databoks 2016). In the following year, the fund required for infrastructure development was USD 359 billion which is 30% more than the government could provide (Bappenas 2018).

In comparison with its GDP, the infrastructure investment of Indonesia since the end of the 20<sup>th</sup> century has levelled off between 3-5% (Lubis 2015). The percentage is only a half of that targeted by the government in its 2015-2019 midterm national development plan (President of Indonesia 2015). Compared to India and China, it is also quite low. Those countries' percentages have been above 7%, and between 9-11% respectively since 2005 (Maryouri 2017).

**Figure 2.6 – Infrastructure Spending in Indonesian Annual Budget**

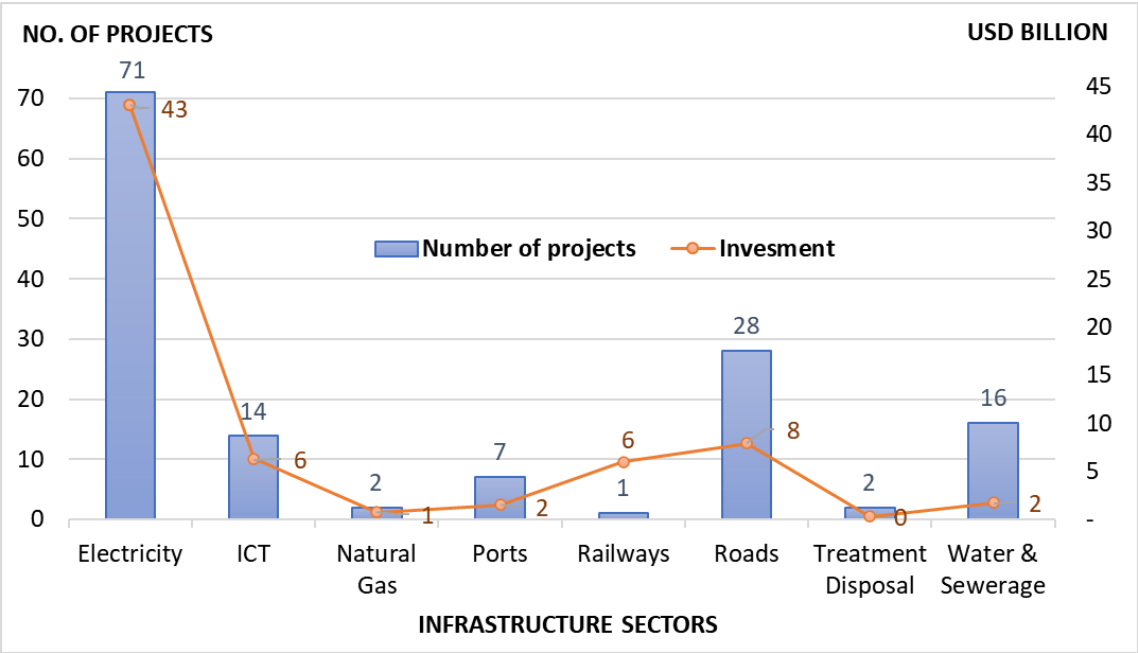


Source: DGB (2017)

The government has realised the problem of infrastructure underinvestment. Its budget can provide around 30% of the investment, state-owned companies are encouraged to deliver another 30% and the remaining percentage is expected to be covered by some types of financial engineering mechanisms (Yudhoyono 2011). One very suitable financial mechanism is public-private partnerships and since 2009, the government of Indonesia has annually issued a PPP book to publish its PPP policy framework as well as planned projects either under construction or being offered to the private sector (Bappenas 2018).

There are seven major sectors of infrastructure development in Indonesia that involve private participation namely electricity, information and communication technology, natural gas, ports, railways, roads, and water and sewerage. World Bank indicates that in the period 1990-2019, there were 141 projects of the seven sectors that had successfully finalised the financial closures. The total investment in the last three decades was almost USD 67.5 billion (World Bank 2020). Figure 2.7 displays that in the 29-year period, the country channelled almost two thirds of its infrastructure funding to the electricity sector (USD 43 billion).

**Figure 2.7 – Private Participation in Indonesian Infrastructure Development (1990-2019)**



Source: World Bank (2020)

The policy framework of PPPs in Indonesia is designed under a presidential regulation and the technical implementation is regulated by four ministries/institutions namely the Ministry of National Development Planning (Bappenas), the Ministry of Finance, the Ministry of Home Affairs, and the National Procurement Agency (Bappenas 2018). Bappenas provides guidelines for PPP infrastructure provision for every sector offered. Meanwhile, the MoF offers policies on viability gap funding as well as the availability payment. Likewise, the Ministry of Home Affairs renders policy on payments from provincial and local governments. The procurement procedure is delivered by the National Procurement Agency. In addition to those PPP-related policies, sectoral regulations for instance in telecommunication, oil and gas, and transportation also apply.

Despite the regulations being delivered by those four institutions, the government established a joint office whose jobs are internally coordinating and facilitating all PPP-related government agencies and externally providing assistance for investors (Bappenas 2018). The joint office plays a role in three stages of PPPs namely planning, preparation, and transaction. In the planning stage, a preliminary study is conducted by government agencies or state/regional owned companies to depict the feasibility study of the project including the funding sources. Next in the preparation stage, the pre-feasibility study activities provide information about the project regarding its business core, social and environmental aspects, and PPP readiness. Once the previous stages are completed, the project is ready for tender. In this transaction stage, the private sector organisation is announced as the winner and a special purpose vehicle is established.

The problems Indonesia faces regarding PPP projects include risk allocation, and complexities in regulation and institutions (Abednego & Ogunlana 2006; Maryouri 2017). The first problem, dealing with the risk allocation between the government and the private sector, can be classified into seven categories: political, construction, operation, legal, income, financial and force majeure (Wulan 2005). Types of related risk in PPPs will be discussed and analysed further in Chapter 4.

Regarding regulatory and institutional complexities, three issues became concerns in Indonesian PPP practices namely coordination, land acquisition, and the PPP framework (Maryouri 2017). The coordination is an issue due to the complexities of relationships not only amongst agencies within the same governmental level but also at different governmental levels. Silo problems arise between sectoral ministries with coordinating ministries and the unsound competition between local governments where any project cuts across their territories. As a result, every stage of PPP development requires lengthy consultation, time-consuming discussion, and complex coordination. To address the problem, the government published a nation-wide master plan for economic development that integrated various national, sectoral, and regional plans to minimise overlapping and increase coordination (President of Indonesia 2011).

The next issue is related to the procurement of land which is essential for every infrastructure project. Landowners tend to hold onto their properties to obtain profit from high market value appreciation. This problem causes a significant interruption to the project timeline that in the end will also increase the cost. Two significant policies have been issued to address the problem. In 2012, a land acquisition law was approved by Indonesian lawmakers (GoI 2012b). Four years later, the government issued a presidential decree to prioritise land procurement in its fiscal

budget (Indonesia 2016). A special fund is allocated annually and managed by a government property agency named LMAN which in 2017 managed around IDR 30 trillion.

The complexity in the Indonesian PPP framework is caused by many aspects including the two issues already discussed above (Maryouri 2017). Firstly, there are the local and central government relationships that create both planning and budget complications. Next, the lack of public sector comparator analysis that causes mismanagement in PPP budgeting. Then, as in other countries, most PPP projects are financially unviable which means that government support is essential.

## **2.6 PPP Practices in Selected Countries**

As in the PAM discussion above, PPP practices in Australia, New Zealand, Canada, and Malaysia are discussed in this section. The purpose of explaining the practices of these four countries is to understand how NPM principles in PAM practices compare with those in PPPs especially focusing on the accountability concerns.

### *Australia*

PPP policies in Australia are issued by the national government and the state governments. The national policy applies nationwide while the latter only to its state regions. The Department of Infrastructure and Regional Development of the Australian Federal Government issued national PPP policy and guidelines that were already endorsed by the State, Territory and Federal Governments (DIRD 2016). All PPP projects offered to the private sector follow these guidelines that regulate seven aspects of PPPs in Australia: procurement, practitioners, commercial principles for social and economic infrastructure, public sector comparator, discount rate and jurisdictional requirement.

At the lower level, the state governments publish their own specific requirements regarding the PPP projects in their jurisdictions. The specific requirements are not against the national policies; hence they just regulate some technical aspects in more detail. For example in the state of New South Wales, the government issued guidelines, the latest of which is NSW Public Private Partnership Guidelines 2017 (NSW Treasury 2017). The guidelines cover the approval processes, governance aspect, procurement strategy, and contract management that suit the objectives and characteristics of the NSW government.

PPPs in Australia basically can be categorised into social and economic infrastructure (DIRD 2008; PWC 2017). The first category refers to income generating infrastructure such as ports, roads, and railways and the latter is for non-income generating ones like hospitals, schools, and other social infrastructure. The use of those PPP categories is not that strict where the second PPP category has been applied to some roads, railways, and ports. The Sydney Metro Northwest and the Waratah train project are examples of economic infrastructure but they utilised the social infrastructure PPP model (PWC 2017). In the last decades, PPPs represent around 10% of all infrastructure projects (PWC 2017). Most infrastructure projects still rely on the traditional procurement method which is still acceptable. PPPs are considered for projects with a minimum capital cost of \$50 million (Infrastructure Australia 2019). Relatively small projects offer better value for money using the traditional procurement technique.

Since 2000, several issues surrounding Australian PPP practices have been investigated and addressed by academics as well as practitioners. Those issues fall into four categories: preparation and project development, accountability, competitive pricing, and ongoing contract management (Duffield 2005). In the first category, one audit finding shows evidence of barriers regarding PPP procurement (Infrastructure Australia 2015). Those barriers include a limited project pipeline, a lack of commitment to PPP from the Australian legal system, an expensive bidding process and an uncoordinated project launching to market by state/territory governments. Next, the accountability issue is related to how the government can be accountable both to the public by transparency and appropriate pricing, and to the private parties by proving incentive, and governance (Brinkerhoff & Brinkerhoff 2011; Duffield 2005; Hodge et al. 2017). Furthermore, in the quest for competitive pricing, the bidding process must be high quality, the risks significantly transferred and the financial closures satisfying both parties (Duffield 2005). Last, to maintain the contract as a going concern, the government and its private partners have to nurture a culture of partnership and make sure that knowledge transfer is materialised (Duffield 2005).

### *New Zealand*

There is a delay in PPPs adoption in New Zealand, compared to other OECD countries and the New Zealand government realised its position by establishing the National Infrastructure Unit (NIU) in 2009 (Liu & Wilkinson 2011). The roles of the NIU are quite similar to its Australian counterpart which include developing PPP policy, procedures and standards; providing assistance for government agencies with PPP procurement, approaching potential private parties,

and monitoring the ongoing PPP projects (The Treasury of New Zealand Government 2018). Not long after its establishment, the NIU issued the Guideline for Public Private Partnerships in New Zealand (NIU 2009).

**Figure 2.8 – PPP Market Maturity Curve in 2011**



Source: (Eggers & Startup 2006; Provost 2011)

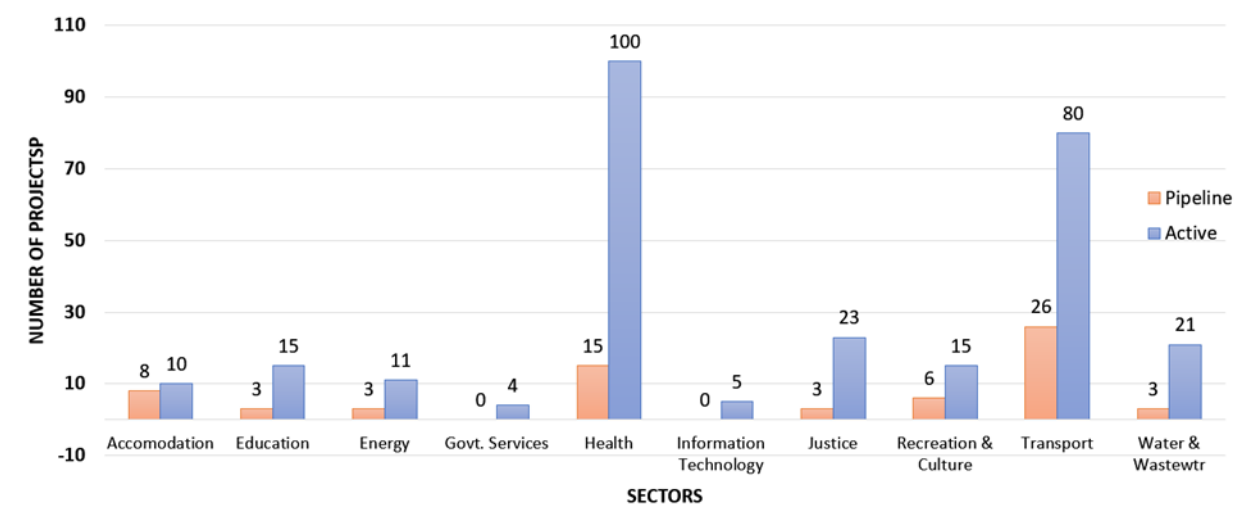
During 2006-2011, the maturity of the PPP market in this country developed in terms of activity and sophistication yet it was still considered to be in the stage two of the three-stage market maturity curve as depicted in Figure 2.8 (Eggers & Startup 2006; Provost 2011). The market maturity curve classifies PPP markets of countries in the world into three stages based on their activity and sophistication (Eggers & Startup 2006). Stage One is for a developing PPP market and when the market becomes active it enters Stage Two. The last stage is when the market matures and is well-functioning. In 2006, the PPP market in this country was in early Stage Two although some sectors of its infrastructure market were still in Stage One. Then, due to the formation of the NIU, New Zealand increased its PPP market maturity convincingly into Stage

Two. A policy guideline has been set up and the early projects indicate some kind of innovation in terms of outcome contracting, and structural arrangement (Provost 2011)

PPP development in New Zealand faces problems that can be identified into: political, social, and legal risks; unfavourable economic and commercial situations; high transaction costs and time consuming bidding processes, and internal problems within both the public and private sector (Liu & Wilkinson 2011). Compared to other countries in the Australasian region including Australia, New Zealand and the neighbouring islands of the South Pacific Ocean, PPP practices in New Zealand are less extensive than Australia, yet more advanced than any other countries in the region (Hodge 2005)

### Canada

**Figure 2.9 – Canadian PPP Projects - 2019**



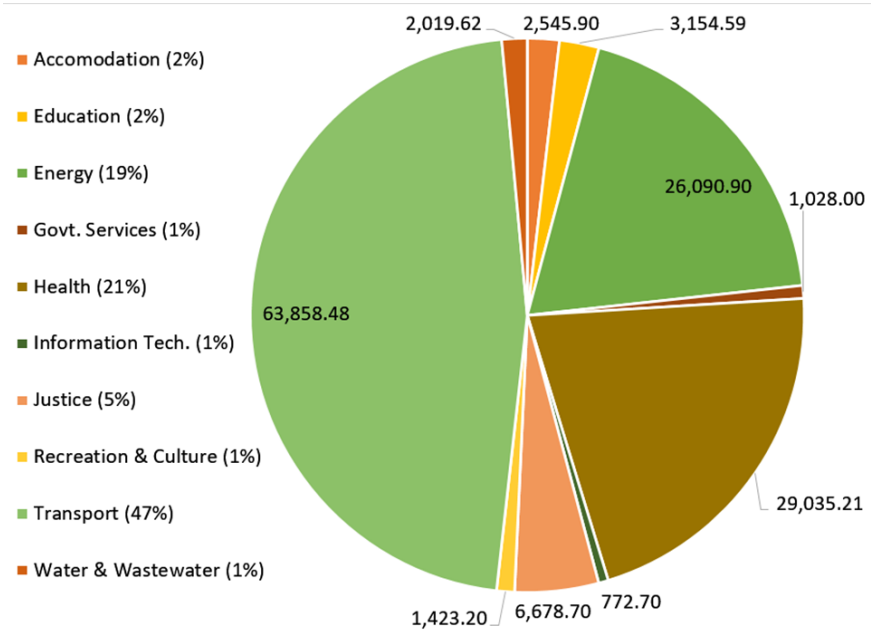
Source: the CCPPP (2019a)

Figure 2.9 shows Canada's PPP market has matured since 2011. It took six years to enhance its maturity from stage two to fully mature in stage three. PPPs have been in this country since the mid-1990s (Boardman, Poschmann & Vining 2005). In the earliest years of its PPP development, Canada established the Canadian Council of Public-Private Partnerships (CCPPP) which is a member-based organisation from across the government and private sector (CCPPP 2019b). The council has issued the guidelines for PPP practices in Canada both for all levels of government involved as well as for private sector. It also plays a role as a centre of excellence where experiences and knowledge from international best practices and domestic success stories as well as failures, are dispersed.



Of the ten infrastructure sectors, Canada currently has 284 active PPP projects with a market value of CAD136 billion and 67 projects still in the pipeline as can be seen in Figure 2.9 (CCPPP 2019a). Almost two thirds of the active projects are from health (35%) and transport (28%). However, in terms of market value as presented in Figure 2.10, almost half of the active PPP projects are in the transport sector, followed by health (21%) and energy (19%). Those three major sectors represent 90% of all operating Canadian PPP projects in terms of market value.

**Figure 2.10 – Proportion of the PPP Active Projects by their market value (CAD millions)**



Source: the CCCPP (2019a)

Over the last three decades, Canada has passed through two stages of PPP development where it tried to address the concerns arising from the first stage and made improvements in the second stage (Siemiatycki 2015). The first stage is in the period between 1990 and early 2000 where a series of early PPP projects such as the Confederation Bridge and the Highway 407 projects were developed. In this stage, the government stated their reasons for adopting PPPs for large infrastructure projects. The second stage was in the first decade of the twenty first century. In this stage, Canada answered the critiques and strengthened its PPP organisation to provide robust analysis. In the current timeline, the way Canada responded in the second stage has been analysed and the contemporary research confirms some consequences have arisen (Siemiatycki 2015).

As Canada has the most mature PPP market compared to other countries discussed here (Australia, New Zealand, Malaysia, and Indonesia), it shows several perspectives regarding problems and the efforts to address them. Several concerns have been addressed by the Canadian government, yet some negative outcomes still need to be addressed. Concerns coming from the first stage were: excessive political influence on PPP selection, inexperienced government operatives, insufficient assessment regarding the worthiest method of procurement, lack of transparency, and loss of significant control. (Siemiatycki 2015; Vining & Boardman 2008).

The Canadian government has responded to those concerns by: establishing PPP special purpose vehicles in most of its provinces; hiring highly specialised officers in every aspect of PPPs including finance, law, business, accounting, and project management; publishing advanced standardised procedures for procurement selection analysis; enforcing its PPP agencies to transparently publish their documentation; retaining more control over recent PPP projects (Siemiatycki 2015; Vining & Boardman 2008). Despite those responses, some concerns still exist regarding bias because of favouring PPP over traditional procurement methods, confidential business information that cannot be open to the public, and high premiums paid by the government for transferring some risks (Rachwalski 2013; Siemiatycki 2007, 2015; Vining & Boardman 2008).

### *Malaysia*

Malaysia formally recognised PPP as a means for delivering infrastructure projects in 2006 when the country released the Ninth Malaysia Plan where the terminology of the private financing initiative was introduced (Office 2006). Malaysian private sector had already participated in infrastructure projects from 1983 after the issuance of the Malaysia Incorporated Policy two years earlier (Ismail & Harris 2014b). No different from other selected countries discussed in this thesis, Malaysia also established a special agency dedicated to develop the PPPs in infrastructure projects namely the Public-Private Partnerships Unit (3PU) in 2009 (3PU 2019).

The 3PU is structurally under the Ministry of Finance whose functions include policy and guideline formulation, advisory services, and stakeholders collaboration in many technical aspects of PPP programs (3PU 2019). According to its publication, the total market capitalisation of Malaysian PPPs as of 31 December 2015 was MYR 293 billion (USD 68 billion) of 824 active projects (3PU 2019).

The motives of PPP adoption in Malaysian infrastructure development differ from the perceptions of different actors in either public or private sector. There are five reasons most offered by government officials and private sector practitioners as to the motives (Ismail & Harris 2014a). Both sets of participants have the same perspective about the two main reasons for the Malaysian PPP adoption, which are firstly to elevate the participation of the private sector in economic development and then to enhance the efficiency of how public services are being rendered. Regarding the third and the fourth motives, the perceptions of those classes of participants are not similar but overall, the most offered reasons are to further the privatisation programme, followed by to decrease the government expenditures for infrastructure. Last, lowering the government roles in infrastructure development is also one of the motives.

**Table 2.1 – The Constraints of Malaysian PPPs**

No.	Constraints (Ordered based on their importance)
1	Lack of government guidelines and procedures on PPP
2	Lengthy delays in negotiation
3	Higher charges to the direct users
4	Lengthy delays because of political debate
5	Confusion over government objectives and evaluation criteria
6	High risk relying on private sector
7	High project costs
8	A great deal of management time spent in contract transaction
9	High participation costs
10	Lack of experience and appropriate skills
11	Very few schemes have actually reached the contract stage (aborted before contract)
12	Excessive restrictions on participation
13	Reduce the project accountability
14	Less employment positions

Source: Ismail and Harris (2014a)

Malaysians have gained significant benefits from the adoption of PPPs in their public infrastructure development where many key projects in transportation, housing, government service and health sectors are thriving (Abdul Aziz & Jahn Kassim 2011; Kaliannan, Awang & Raman 2010; Phua, Ling & Phua 2014; Ward & Sussman 2006).

However, there is still room for improvement. Some problems have been identified and need to be appropriately addressed. Otherwise, the outcome could be devastating and harm the sustainability of PPP projects in the long term. The main problems in Malaysian PPPs are the

management of risk especially political risk, lack of transparency, and low public participation (Ward & Sussman 2006). The complication of those concerns brings the suspicion that the selection process is conducted not for the sake of public best interest, but for political association (Ward & Sussman 2006). In addition, there are fourteen constraints from the key players' perspectives regarding Malaysian PPPs that can decide their development in the future as can be seen in Table 2.1 (Ismail & Harris 2014a).

The discussion on PPP practices in the above five countries, including Indonesia, reveals that these countries experience similar difficulties yet in different magnitudes as well as time frames. They encounter issues with accountability and transparency; risks and premiums allocation; expensive and extensive bidding processes yet uncompetitive pricing; coordination among agencies; and public participation.

## **2.7 Conclusion**

The Indonesian political situation influences how the central government runs its affairs including in infrastructure development and its PAM. In the Soekarno's era, several mega structures were built as white elephant projects in the middle of the cold war between world powers. At this period, the physical development was not followed by the adoption of good governance as armed struggles still happened in large parts of the country. In the following regime, Soeharto's authoritarian government, with the support of political stability and windfalls from the 1980 oil boom, gradually changed the nation's economy into one of the Asian tigers. The development had not sustained when an economic crisis followed by the political crisis hit the nation in 1998. One of the impacts of the 1998 crisis brought not only political but also bureaucracy reform. The principles of professionalism, transparency and accountability were officially adopted in the national law.

The development of Indonesian PAM has recorded six milestones. Firstly, 1970 has been recognised as the infrastructure construction started. Then in 2003, five years after political turmoil brought democracy to the country, the government adopted the principles of good governance in their regulations. One year later, the country issued its first central government financial statement then conducted its initial asset revaluation. The next progress was achieved when idle or surplus assets obtained more attention. Last, in 2014, the government adopted accrual-based accounting, integrated its PAM and budgeting system and strengthened the asset legal documentation.

The PAM framework in Indonesia is built on the concept of an asset life cycle where the assets are considered following through the circle of planning, procuring, operating, and disposing. In the adopted life cycle, Indonesian PAM includes policy making, asset appraising, monitoring and controlling, and periodical reporting. The current PAM regulation takes into account the asset types, actors, principles, and activities. The main actors for real property and non real property assets are the asset manager and the asset user. The principles of all those policies are functionality, legal certainty, transparency, efficiency, accountability, and value creation.

To provide greater understanding, the research analyses PAM practices in several countries both in the developed and developing worlds. Australia, New Zealand, and Canada are regarded for their PAM reform in adopting the principles of accountability, productivity, competition, and fiscal discipline in their total asset management program. From the developing world, Malaysia is one of a few nations, considered to be successful in managing both federal and state government assets through a unit inside its prime minister's office.

Meanwhile, more attention has been given to the adoption of PPPs in Indonesian infrastructure development in the last decade. The nation has realised that its budget cannot solely fund development without involving the private sector where there was a 30% funding gap in 2018. A set of regulations and a dedicated joint office are provided to support the PPP adoption. The problems of PPP practices in the country are related to risk allocation and regulation and institutional complexities. Another issue is relatively technical when almost every infrastructure project has to deal with difficulties in the procurement of land.

The practices of PPP in Australia, New Zealand, Canada, and Malaysia are also discussed to do comparative analysis in terms of their adoption motives, policies, and regulatory bodies. Of those four countries, the Canadian PPP market is seen as the most mature from the aspects of activity and sophistication. In that country, two third of active PPP projects are in the health and transport sector. Meanwhile in Indonesia, more than half of the projects arise from the energy sector especially electricity development.



## **Chapter 3**

### **Public Asset Management: The Adoption of NPM**

#### **3.1 Introduction**

This chapter is the first of two literature review chapters. It examines the concepts and approaches relevant to the understanding of the key features and accountability concerns in the adoption of public private partnerships in relation to public asset management. The chapter discusses two of four areas of literature related to the thesis topic: NPM and PAM. The other two, PPPs and accountability are discussed in the following chapter.

Furthermore, this chapter explores the theoretical basis of the research. The purposes of a literature review include setting the scope of research, understanding the current literature, identifying the research gap, obtaining methodological comprehension, and preparing a framework for the research contribution (Randolph 2009). However, the gap in the literature will be discussed in Chapter 4.

The chapter is organised into five sections. After the introduction, there is a discussion on how the NPM movement shapes the way governments manage their public assets. Besides the discussion on the concept and principles of NPM, this chapter analyses how the literature discusses asset management theory and its framework. The chapter concludes by summarising the important points of the whole chapter and providing a connection to the following chapter.

#### **3.2 New Public Management Paradigm**

The concept of NPM is closely related to the topics of governance, government, and public administration. Governance is the leadership approach chosen by the public sector in acquiring and utilising authority in providing for public needs (Kaufmann & Kraay 2007; Oehler-Sincai 2008). World Bank (2003) describes further dimensions of governance that include five areas namely: the separation of powers among legislative, judiciary, and executive; the accountability of its political system; public sector management; private sector competitiveness; the circumstance of civil society, citizen's voices and their participation. The government is the party who conducts the endeavours of governance.

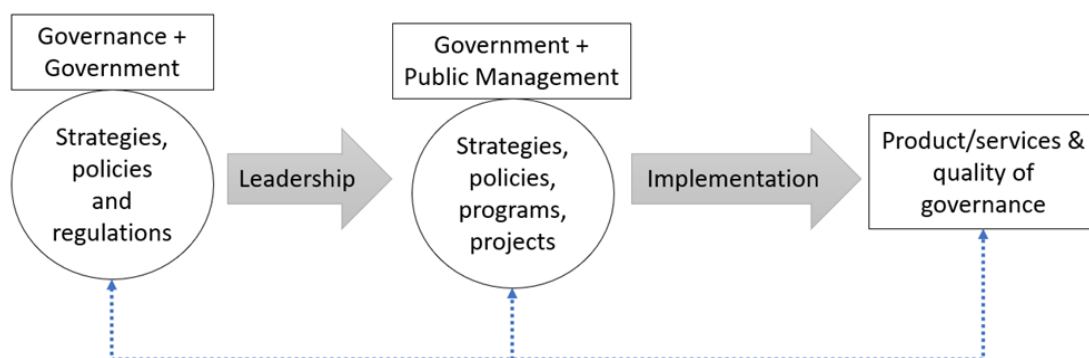
Within social sciences, the study of government and governance is called public administration (Lane 2002). The difference between public administration and public management lies in what

aspects they involve (Hughes 2017). The former involves instructions and service which are dominated by processes and procedures. Those processes and procedures are designed by political leadership. It does not recognise personal responsibility and has no direct responsibility for the delivery of result. In contrast, the latter emphasises the achievement of results and personal responsibility as its form of accountability (Hughes 2017).

Disregarding results delivery and accountability in its spectrum, public administration focuses on process, procedures, and bureaucracy in the formal manner of conducting orders from political leaders (Hughes 2017). On the other hand, public management takes a different path for debates by focusing on deliverables and accountability (Hughes 2017).

Not all researchers follow the same idea regarding public administration and public management. Once, public management was a subdiscipline of public administration. Public management was seen to emphasise the implementation of governance (Oehler-Sincai 2008). Another view is that, despite the natures of public management and public administration where the first is considered dynamic and the latter static, the difference between two is stereotypical (Pollitt 2016). The two share similar methods and academic theories and as result, they are from the same unified discipline and community (Pollitt 2016).

**Figure 3.1 – Governance, Government and Public Management**

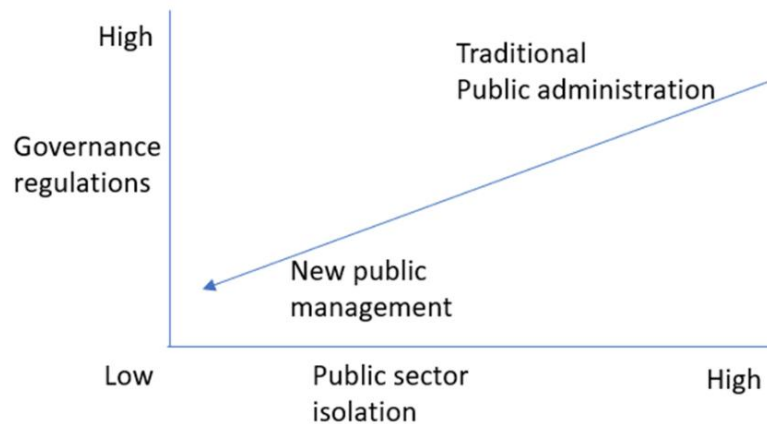


Source: Oehler-Sincai (2008)

The relationship between governance, government, and public management can be seen in Figure 3.1 (Oehler-Sincai 2008). Governance activities by government deliver strategies, policies, and regulations which become the basis in arranging the programs as well as the projects. Public management addresses how to implement all deliverables of the governance activities. The results are products or services to fulfil the citizen's needs. The quality of governance provides feedback for both governance and public management improvement.



**Figure 3.2 – Shifting from Traditional Public Administration to NPM**



Source: Dunleavy and Hood (1994)

The new style of public management is well known as New Public Management (NPM) which transforms the style of classic public administration in two directions (Dunleavy & Hood 1994). Firstly, it increases the freedom of government officials for example in managing resources, staffing, and contracting, and diminishes the role of regulation. Secondly, the involvement of private sector in public affairs is enhanced and the degree of government isolation is reduced. The shift is depicted in Figure 3.2.

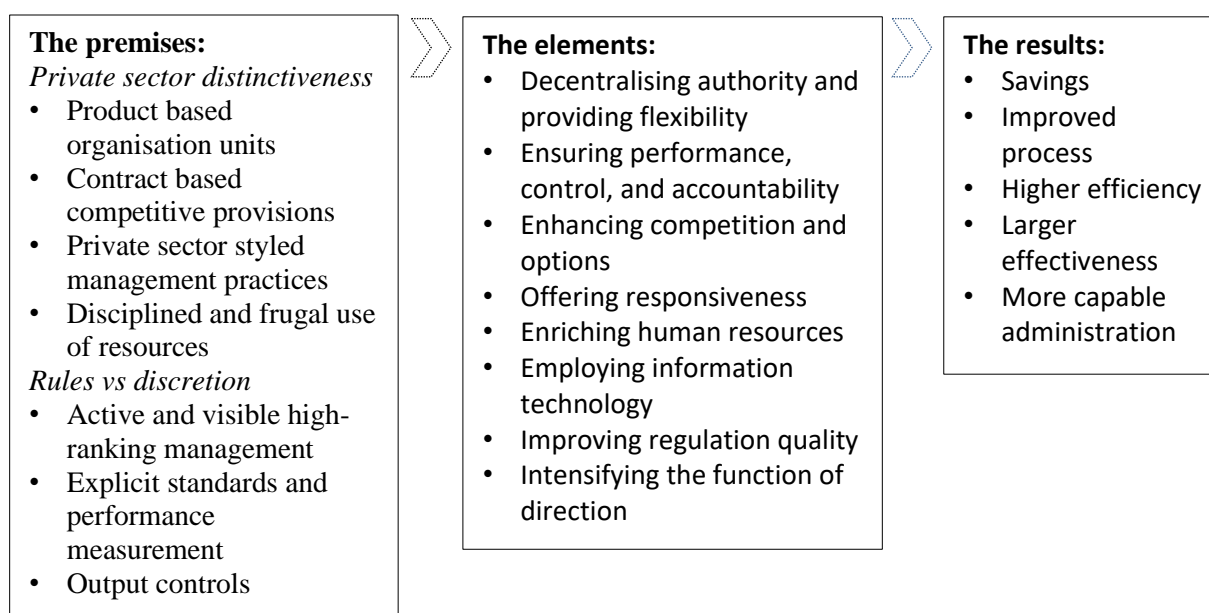
The shifts in the management approach of NPM significantly influences how governments view their activities by changing their orientation from input and process to output based (Christensen & Lægreid 2007); and contracting out more activities to private sector (Osborne 2006). The output-based approach causes a fundamental change in measuring the performance of government officials. The main attribute of performance management is it can enhance the efficiency and effectiveness of the output (Den Heyer 2011). The rigorous involvement of private sector in public affairs raises the question about how output is specified in contracts and how the output will result in the designated outcome (Christensen & Lægreid 2007).

#### *Premises and elements*

The NPM paradigm has been one of the most discussed and debated in the public administration discipline since the 1980s. New Zealand, along with other Anglo-Saxon countries pioneered NPM reforms before it spread globally (Schedler & Proeller 2005). The rise and adoption of NPM in other parts of the world are due to the people's demands to their own governments to address their local or national problems. NPM adoption in each country is unique because it is

triggered by the reaction to the country's current challenges such as democratic participation, business competition, public dissent, political, administrative, and financial hardship. The way a country chooses to address those challenges, determines its NPM style, which is distinctive to other countries (Schedler & Proeller 2005).

**Figure 3.3 – Premises, Elements and Results of NPM**



Source: (Hood 1991) Hood (1995), OECD (1995), Pollitt, C (2005)

NPM is a loose concept that recognises the need to modernise the public sector. It has three main features that can be described as efficiency, customer focus, and competitive orientation (Taylor 2005) or by another study as efficiency, effectiveness and economy (Harrow 2005). In addition, the interpretation of NPM has been constantly debated against newly developed perspectives of public management but the early studies offer a wider explanation where NPM is discussed based on its premises, elements, and results (Figure 3.3). NPM is built based on seven doctrines or premises, which are grouped into two categories, namely public sector distinctiveness and rules discretion trade off (Hood 1991, 1995). The first four premises: product-based organisation units, contract based competitive provisions, private-sector styled management practices, and disciplined and frugal use of resources, are grouped in public sector distinctiveness. The last three premises, active and visible high-ranking management, explicit standards and performance measurement, and controlled output, display a trade off between rules and discretion.

Once adopted, the premises bring several benefits and accounting consequences (Hood 1995). The first premise makes units within an organisation manageable and more efficient by virtue of separating provision and production. However, as more units are created, the organisation will have more cost centres. From the following premise, cost decrease and better performance standards can be achieved. Nevertheless, it will be more difficult to identify and safeguard the cost data as the data become commercially confidential. Thirdly, the private sector styled management means governments are required to employ tools from the private sector, and thus they also need to adopt private sector accounting principles. The last premise in private sector distinctiveness is the disciplined use of resources that can be interpreted as direct cost cutting and an increase in employee discipline. As expected, these policies will put more pressure on the bottom line as the employees have less job security.

The second category of the premises explains shifting from rule based doctrines to more flexible discretionary policies (Hood 1991). Because of that shifting, high ranking managements play a more active role in exercising their discretionary authority. The impact of it is fewer technicalities but more use of financial data to verify management accountability. The penultimate premise, standards and performances are explicitly measured. These actions are to serve accountability and efficiency, where goals are clearly asserted and scrutinised. Therefore, performance indicators have to be established and audits conducted. Last, NPM requires more weight on output controls which means it is result oriented. The impact of this premise is similar to that of the first premise.

Despite its lack of a theoretical foundation and political perspectives, as an authoritative source, OECD provides eight elements of NPM based on an empirical survey and operational perspectives (OECD 1995). Those elements (Figure 3.3) are more practical than theoretical as they are constructed as guidance for OECD members. In general, those elements are the implementation of both NPM main features and its premises. Furthermore, the elements mostly mimic the proven private sector practice such as flexibility, performance control, and responsiveness.

Several countries have benefited from their efforts reforming their public administration by adopting NPM. The benefits include decreased budget appropriations, faster and better processes in both internal activities and external services, higher efficiency that is shown by better input-output ratios, larger effectiveness, and more capable administration (Pollitt, C 2005). Some

examples of those benefits can be named as follows (Pollitt, C 2005). The Thatcher administration successfully cut its officers by more than 20%. The US government also managed to reduce its workforce by almost a quarter million in 1996. Then, the improved process of American pensions delivered more benefits to around ten million workers.

### *Rule of law*

Different from many studies in NPM and public management where the rule of law is not featured, the rule of law in modern public governance is vital because it regulates the four involved parties: the government as the institution, its officials, private sector and the citizens (Lane 2002). Much depends on the administrative tradition of countries, those in Europe have more emphasis on law as a mode of operating. In the Indonesian legal system, similar to other countries with years under colonialism, its role of law is deeply influenced by its colonial master in the past (Katherine 2011), especially the Dutch. The principles of its administrative law come from Dutch law such as the general principles of good governance in the Indonesian legal system (Tutik & Widodo 2016).

The contract-based competitive provisions require both constitutional and administrative laws as they involve three parties, the government, its officials, and the private sector. Meanwhile, disciplined use of resources is regulated mostly by administrative law because it is an internal government activity involving merely its officials. It is necessary to have a general understanding of constitutional and administrative law. Constitutional law regulates matters as follows: changing of government, the relationship among government bodies, the accountability of government, authority division between different levels of governments, and the relationship between citizens and government. Unlike constitutional law, administrative law deals with specific government affairs such as customs and immigration (Alder & Syrett 2017).

The enforcement of the rule of law in developing countries faces resistance because of the existence of privilege and the rise of rent-seeking (Weingast 2013). The rule of law itself is defined as ‘a system of rules that are transparent, public, and enforced regularly, predictably, and equally against all persons, both citizens and political elites’ (Katherine 2011, p. 876). The principle of equality before the law in many developing countries is difficult to realise. Privilege and rent seeking exist and they are used to lower the problem of violence. For instance, in Indonesia during the Soeharto era, the military institutions were granted privileges, and civil

servants were allowed to seek rent amidst the conditions of small budget allocation and low salaries (McLeod 2008).

The concept of the rule of law itself is still debatable within the political science discussion as it could be:

just an empty slogan, useful perhaps as decoration for whatever else one wants to assert into a political dispute, but incapable of driving one's argument much further forward than the argument could have driven on its own (Waldron 2002, p. 139).

However, in the developing countries context, the rule of law could be discussed for its requirement of transparency, public availability, regular enforcement, predictability, and equality. In Indonesia for example, all these criteria have been breached during the Soeharto era as the corruption was systemic and institutionalised across ministerial and other civilian agencies, the judiciary and the law enforcement system, and military intuitions (McLeod 2008). In other words, 'To say that the rule of law under Soeharto was weak would be a gross understatement (McLeod 2000).'

Recent studies discuss more current conditions regarding the Indonesian rule of law in eradicating corruption. One study, comparing the implementation of 1971 and 1999 Anti Corruption Law concludes that in the period from 1971 to 2007, the nation had failed to meet the policy objective of eradicating corruption within governmental bodies (Brata 2014). Five aspects have contributed to this failure, namely policy design, political, institutional, managerial, and societal. Though, from 2012 onward, the nation's corruption perception index has increased gradually, indicating improvement in progress (Transparency International 2020).

### *Performance management*

Although as a terminology, performance management was not heard of at least until 1970, it had been implemented in a simple form by the Wei Dynasty in the middle of the 3rd-century (Armstrong & Baron 2005). In the modern era, performance measurement has been a worldwide trend for almost fifty years (Pollitt 2006). The main objective of performance management is to increase effectiveness, efficiency, and the accountability of governance activities by displaying clear organisation objectives (Hood 1991; Speklé & Verbeeten 2014).

Historically, the evolution of managing performance in the public sector is in five stages namely: traditional/per-performance, performance administration, managements of performances, performance management, and performance governance (Bouckaert & Halligan 2008). Figure

3.4 explains all those development types of managing performance from four dimensions: what are they measuring; what factors they are taking into account; what methods they use; and what are the disadvantages. This section only discusses performance management type, which is relevant to the research topic.

**Figure 3.4 – Performance Management Framework**



Source: Poister (2015)

Table 3.1 shows that in the performance management type, the measurement is hierarchically integrative that taking three broad levels of management: top, middle, and operational. Performance indicators are designed and cascaded top down or bottom up in the organisational structure (Brignall & Modell 2000). Integrative performance management enables the analysis of the interaction of performance measures across levels and departments within the organisation (Kaplan & Norton 2007). The hierarchical and integrative characteristics of performance management are the strengths of its style. Yet, due to the system complexities within a government context, performance management is hardly sustainable (Bouckaert & Halligan 2008).

**Table 3.1 – Managing Performances**

	<b>Traditional</b>	<b>Performance Administration</b>	<b>Managements of Performances</b>	<b>Performance Management</b>	<b>Performance Governance</b>
<b>Measuring</b>	Intuitive subjective	Administrative data registration, mostly input & process	Specialised performance measurement system	Hierarchical performance measurement systems	Consolidated performance measurement system
<b>Incorporating</b>	None	Some	Within different systems for specific management functions	Systemically internal integration	Systemically internal & external integration

<b>Method</b>	None	Limited: reporting, internal, single loop	Disconnected	Coherent, comprehensive, consistent	Societal use
<b>Disadvantages</b>	Functional unawareness	Ad hoc, selective, rule-based	Incoherence	Difficult to sustain	Uncontrollable, unmanageable

Source: Bouckaert & Halligan (2008)

Despite the fact that performance management is dynamically evolving following the changing of management style and organisational culture, a successful performance management system can still be identified through its attributes (Bititci et al. 2006; Fryer, Antony & Ogden 2009). The attributes include: the alignment with all other systems and organisation strategy; the strong commitment of high-level management; the existence of a culture that promotes the good performers and supports the poor performers; the active involvement of all stakeholders; a continuing improvement which is based on monitoring, feedback, learning outcomes (Fryer, Antony & Ogden 2009).

Performance measurement is a crucial part of performance management. Effective performance measurement has four aspects namely: appropriate indicators, measurement procedures, data interpretation, and results communication (Fryer, Antony & Ogden 2009). Under their concept, and as shown in Figure 3.4, performance measurement and reporting continually interacts with each aspect of a management cycle from planning, budgeting, managing, and evaluating (Poister, Aristigueta & Hall 2015).

### *Contractibility*

Another important issue added by NPM into the debate on public sector management is contracting including both contracting out where public affairs are conducted by private sector, and contracting in or in house provisions (Lane 2002). Contracting in for a NPM regime means that the government binds its officials with two types of contractual agreements namely employment and performance contracts (Lane 2002). The first is just a private law contract, and the latter comprises the expectation of what the officials need to do or not do. Contracting out deals with agreements between the government and private sector as suppliers of goods or services.

The likelihood of successful contracting out is influenced by the magnitude and specificity of the physical asset, the quality characteristics of the non-contractable elements and the availability of

competitive supply in the market (Domberger & Jensen 1997). The contracting out is expected to be more successful when the magnitude and specificity of the physical assets are smaller, the quality characteristics are less significant, and the supply market is more competitive. In practice, the contracting out can be exercised in three forms: alliance, prime provider, and outcome-based contracting (Domberger & Jensen 1997).

### **3.3 Asset Management Theory and Framework**

A wide range of assets including infrastructure owned by governments, are to serve the needs of the population as well as the economic development of the nation (Kaganova, McKellar & Peterson 2006). A reform in public asset management has been driven by several principles: performance enhancement, public sector role, function separation, financial flexibility, accountability, and transparency (Kaganova, McKellar & Peterson 2006). Those principles are the important parts of NPM concepts which have evolved in the last several decades (Christensen & Lægreid 2007; Lane 2002). Although those reforms are mentioned to bring public asset management closer to that of its private sector counterpart, in the absence of an autonomous monitoring agency, it will generate corruption and abuses (Oehler-Sincai 2008). The roles of audit will be discussed further in Chapter 4.

Prior to discussing the PAM further, it is necessary to define the meaning of assets and real properties from the accounting and legal perspectives. The International Public Sector Accounting Standard Board (IPSASB) (2015) defines an asset as ‘a resource presently controlled by the entity as a result of a past event’. The IPSASB further comments that the control of assets exists when the government has legal proprietorship, access to the asset, the means to ascertain the utilisation of the assets and enforceable rights to obtain economic benefits. In both public and private sector, assets are generally divided into current assets and non-current assets (IPSASB 2015; Mackenzie et al. 2012). In a balance sheet of a public sector entity, there are two classes of a non-current asset that usually have significant values, namely: infrastructure, plant and equipment, and land and buildings.

From a legal perspective, the terminology of real property is more recognised. It is defined as all rights related to the proprietorship of land and all things naturally part of the land (IVSC 2013). In other words, real property is the right of a legal entity either to own or to utilise real estate. For the purpose of the research, public assets refer to public real properties, taking into account infrastructure, land and buildings.



The next term that needs to be defined in this research is public asset management (PAM). In the literature, academicians propose their own definition based on what aspects they emphasise regarding PAM. One definition that pays more attention to the asset's performance, defines PAM as the process of managing assets by analysing their performance for the support of decision making in asset holding, disposing, and repositioning (Gruis, Nieboer & Thomas 2004). Another definition views PAM as part of a complete picture in an organisation where PAM plays a role in connecting the needs of strategic level decision making with the deployment of its resources either for current demand or future investment possibilities (Lyons 2004).

PAM can be considered as a subset of the study and practice of public sector management in the area of how a government manages its property assets to serve the public demands. Though PAM has been defined differently, some authors share similar ideas about the purpose of PAM. PAM can serve as: a decision making tool (Lyons 2004; Wittwer, Bittner & Switzer 2002), support for the organisation's activities (Jones & White 2008), and as a basis for planning (Lyons 2004; Wittwer, Bittner & Switzer 2002). From the activity point of view, PAM includes four stages of asset life cycle (Abdullah et al. 2012).

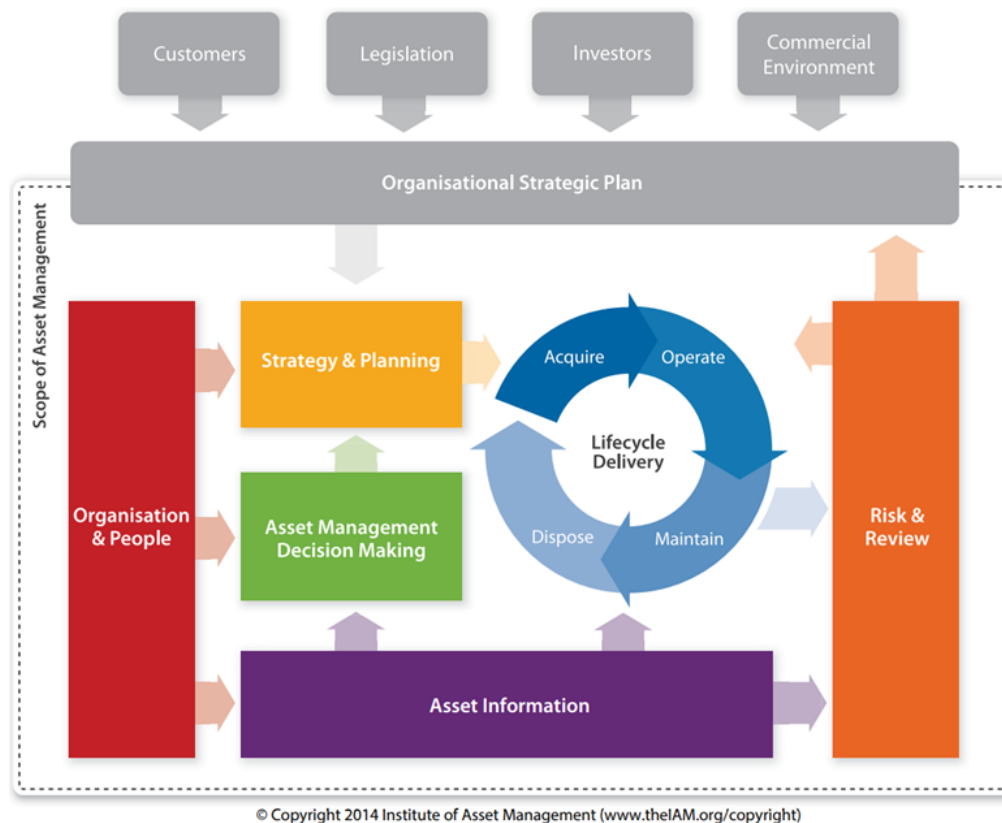
PAM in many countries has evolved to adapt to public demands for productivity, accountability, and transparency (Kaganova & Nayyar-Stone 2000). Nevertheless, PAM as a part of public sector management is mostly led by five government circumstances (Grubišić, Nušinović & Roje 2009). In the first place, PAM is established as a result of legislative, institutional, and control processes. It is also limited by national interest where foreign and domestic affairs are taken into consideration. The assets are earned from the national revenues that consequently are utilised either for public consumption, debt repayment, or investment. PAM also serves as a national heritage and defence protector where those interests cannot be compensated by financial considerations. Last, it plays a role in public goods and service delivery.

A more comprehensive definition of public asset management is 'a structured, holistic and integrating approach for aligning and managing overtime service delivery requirements and the performance of property assets to meet business objectives and drivers within a central government organisation' (Male et al. 2007). This thesis follows this definition regarding PAM due to its comprehensive approach that incorporates many aspects within an organisation especially a central government organisation. Those aspects are organisational structure, time frame perspective, asset performance, and organisational goals.

## *PAM Framework*

One of frequently referred to frameworks of asset management is proposed by the Institute of Asset Management (2015). The model as shown in Figure 3.5, has been tested and debated amongst asset management practitioners, academics, and related stakeholders through the Global Forum. Yet, it is a dynamic model due to the ongoing evolution of asset management. As can be seen the framework consists of six subject groups namely strategy and planning, asset management decision-making, life cycle delivery, asset information, organisation and people, and risk and review.

**Figure 3.5 – Asset Management Conceptual Model**



Source: The Institute of Asset Management (2015)

The institute breaks down each group into 39 asset management subjects as presented in Figure 3.6. The framework shows how the PAM is held accountable to its stakeholders including customers, legislation, investors, and the commercial environment. In addition, in Group 6, it is mentioned that the stakeholders are engaged in determining the risk and review. Meanwhile, the subjects in Group 5 and Group 6 serve accountability to internal parties. Group 4 – Asset Information fulfils the principle of transparency by providing reliable information to the

stakeholders. Last, Group 1 – Strategy and Planning serve the principle of the rule of law in preparing the PAM strategy, policy, and objectives.

**Figure 3.6 – Grouped Asset Management Subjects**



Source: The Institute of Asset Management (2015)

The above PAM framework is beneficial in understanding proper public asset management in four ways namely public asset identification, asset needs analysis, asset life cycle reference, and performance measurement (Hanis, Trigunarsyah & Susilawati 2010). First, asset identification is the early process in establishing a robust asset management system. The identification should cover information dealing with assets specification, location, purposes, users, operation and maintenance (Hanis, Trigunarsyah & Susilawati 2010). The framework is also advantageous in answering questions regarding the need of assets and government service delivery (Lu 2011). Assets should be only acquired in appropriate numbers and quality to support service delivery. Then, in regard to asset life cycles and performance measurement, the following sections will discuss those issues further.

#### *Asset life cycle and types of decision areas*

The process of PAM includes four stages starting with planning, followed by procurement, then utilisation, and last the disposal of unneeded and expired assets (Abdullah et al. 2012; Treasury

2004). Each of those cycles can be seen in two time-frames namely strategic and operational (Male et al. 2007). The strategic time frame includes long to medium term activities, and the operational one ranges between medium and short-term activities. From an engineering point of view, the lifecycle of an asset is started from the concept and design, construction and commissioning, operation and maintenance, and then the asset disposal (Van der Lei, Wijnia & Herder 2012).

The decision regarding asset management based on its process model or asset life cycle basically can be classified into three types: asset objectives, situation and asset intervention (Schraven, Hartmann & Dewulf 2011). Several researchers analyse various types of decisions across different kinds of public assets in regard to their objectives, situations and interventions.

Decisions regarding asset objectives deal with the efforts of a government entity in achieving the objectives of its assets. In this part of decision making, an extensive policy framework must be established beforehand, followed by the policy goals identification, and a list of asset objectives containing more detailed information (Neumann & Markow 2004). Considering the government limitations either financial or in personnel, a set of selection criteria have to be determined to define which assets are to be acquired, rehabilitated, or disposed of (Šelih et al. 2008). That selection criteria must be consistent with the predetermined asset broad policy (Iniestra & Gutiérrez 2009). In addition, the determination of objectives must be specified when designing an asset program to ensure the longevity of the asset utilisation (Malano, Chien & Turrall 1999).

In regard to the asset situation, the decision making is related to the performance measurement of an asset use by a particular government entity (Schraven, Hartmann & Dewulf 2011). Areas of this decision making include: the stipulation of a minimal asset performance level (Haffejee & Brent 2008); the determination of investment timing, cost, effectivity, efficiency, and financial model (Malano, Chien & Turrall 1999); the measurement of asset performance (Neumann & Markow 2004); the balancing of asset risk, performance and cost (Vanier 2001); the definitions of an asset, capital and operational expenditures, the method to assess its condition and revaluation time, the determination of an asset information system (Howard 2001). The measurement of asset performance for entity, project and network level is also part of the decision regarding asset situation (Gharaibeh, Chiu & Gurian 2006; Neumann & Markow 2004).

Last, there is decision making regarding the intervention policies in terms of predetermined works by government bodies about their assets throughout their life cycle (Schraven, Hartmann

& Dewulf 2011). Intervention policies are planned by the government to conduct a project which could be routine maintenance, renovation, and reconstruction of a specific asset in order to maintain or increase its functionality (Malano, Chien & Turrall 1999; Schraven, Hartmann & Dewulf 2011). The intervention projects are selected from the current asset portfolio, followed by prioritising them based on performance measurement results, and then allocating the fund to the project accordingly (Gharaibeh, Chiu & Gurian 2006; Karydas & Gifun 2006; Šelih et al. 2008).

During its operation, the performance of an asset could be measured on the basis of cost, effectiveness and efficiency. For example, an underperforming asset problem has been identified. Then the government decides the type of intervention whether a renovation or reconstruction project to rectify the problem. Once an intervention policy has been determined, a set of alternative projects as well as their capital requirements are prepared (Haffejee & Brent 2008; Malano, Chien & Turrall 1999). To cover the project fund, various channels of funding could be used by considering the trade-off between the asset performance and its project cost (Neumann & Markow 2004).

### **3.4 Approaches and Principles of NPM in PAM**

Many governments, especially in developed countries adopt three approaches towards their public property management (Kaganova & Nayyar-Stone 2000). First, there is a decreasing trend of government proprietorship of public real property, which is due to the fact that most assets of public ownership underperform those of the private sector. Therefore, governments tend to privatise their assets and to give private sector more access to public services (Freeman 2000). Thus, they acknowledge that public properties are productive assets that need to be managed in the way the private sector manage theirs. This acknowledgement leads to the third approach, which is those governments which have started to harness the principles and practices of the private sector's asset management.

The current development of PAM is in line with the application of NPM concepts. The main reason is to enhance public sector performance by improving efficiency and effectiveness (Campbell, Jardine & McGlynn 2010; Den Heyer 2011; Flynn 2012). The profession in the property sector says that PAM is designed to align an organisation's activities with its strategic aims by ensuring usage efficiency and promoting economic growth (Jones & White 2012). Public sector performance in managing its assets is measured in three ways: financial

achievement, service excellence, and relationship with tenants (Abdullah, Razak & Pakir 2011; Lemer 1999).

To achieve the above various objectives of PAM, governments must carry out its primary functions. Five duties are considered as the key functions of PAM, namely: (1) the establishment of real estate management policies which are related to acquisition and disposal, building design, real estate maintenance and operations; (2) the supervision and monitoring of portfolios using the best management practices as set out for local authority real estate managers; (3) ensuring that acquisition and disposal transactions are carried out at optimal values; (4) maximising returns from the capital invested in the assets; and (5) ensuring assets are efficiently and effectively utilised and that costs are minimised from occupancy, management operations, and maintenance (Ching 1994).

The three 'E's of performance management: economy, efficiency and effectiveness are inhibited by one of the main problems in public management, namely risk avoidance (Flynn 2012). In the asset management context, members of the organisation tend to avoid any risks to change the existing condition. For example, a problem of idle assets is an indication that risk avoidance exists in the organisation where the management refuses to take a proper action to address it. The fifth function of PAM indicates that the government is required to ascertain that all assets are fully utilised to obtain maximum returns from the capital invested in the assets as stated in the fourth criterion (Ching 1994).

Classifying public assets is essential in order to provide appropriate actions based on assets role in the government main functions. Categorising public assets into three major categories namely core, additional and surplus assets, could improve efficiency by emphasising core assets and reducing surplus assets (Kaganova, Tian & Undeland 2001). Core assets are used to deliver the main functions of government bodies, meanwhile additional assets are used for the same function but are not obligatory or main. Assets which are not in those categories are surplus assets. The decisions are enforceable if there are dedicated, specialised, small, short-term task forces to inform the high ranking management about policies on surplus assets (Lyons 2004). As part of this assignment, the task force should advise on further opportunities for private sector involvement in asset management, including the merits of developing new investment vehicles.

### *Reporting*

As the NPM emphasises accountability and transparency, the role of financial reporting is inevitable. PAM which utilises information generated by public sector accounting could obtain several benefits such as optimising the asset utilisation by increasing the occupancy rate and the betterment of accomplishment lead time (Summerell 2005). Despite the benefits, there are several accounting issues regarding assets reporting: implementation of accrual instead of cash basis and the application of fair value accounting as the opposite of historical cost accounting (Kaganova 2012). Should fair value accounting be applied, the assets are presented at their fair values coming from an asset valuation process by certified appraisers. In addition to that, the market values of public assets are necessary for any decisions related to the assets such as asset transfer and infrastructure development by PPPs utilising public lands or buildings (Kaganova 2012).

A public asset registry as the precondition in presenting a government's assets in its financial reporting is considered as the landmark in accountability and transparency (Grubišić, Nušinović & Roje 2009). The registry becomes the basis for the government to prepare its financial statement as well as to conduct benefit, cost, and risk analysis. (Grubišić, Nušinović & Roje 2009). Yet, this is still far from sufficient to ascertain accountability in PAM. There must be a full asset stewardship in terms of reliable performance measurement and effective decision making driven by a robust accounting system (Kaganova 2009). The applied accounting system as the body of rules and resources that manifest all practices of an organisation, becomes the system of accountability (Roberts & Scapens 1985)

### *Asset performance measurement*

NPM seeks for greater efficiency by benchmarking with the private sector including taking into account the options of contracting out and outsourcing (Hood 1991; Poister, Aristigueta & Hall 2015). Therefore the public sector requires a tool to measure its performance that can serve two interests: to establish accountability (Hatry 2006) and to adjust its strategy regarding performance betterment (Poister, Aristigueta & Hall 2015). Performance measurement basically is viewed as a set of key performance indicators which will be difficult to fulfil in an environment with no clarity of institutional objectives, low technical capabilities, and little stakeholder supports (Berman & Wang 2000; Koppell 2005; Poister, Aristigueta & Hall 2015).

Until 1980, public assets were seen and treated as public goods which were taken for granted (Kaganova & Nayyar-Stone 2000). Despite the fact that the asset capital cost had been considered in decision making for years, in most countries, financial performance measurement of ongoing public assets had never been taken into consideration until that period (Hanis, Trigunarsyah & Susilawati 2011). Research regarding performance measurement of asset management is still limited and even more so in public sector asset management. Despite that, the concept and framework of asset performance measurement are the same with other aspects of public sector management seeking understanding of how a public sector entity works. Performance is measured through analysing the process of how resources are utilised through effective and efficient activity to deliver outputs that support the predetermined outcome (Poister, Aristigueta & Hall 2015).

The model was originally developed from the capability maturity model which was designed to assess project development software (Paulk et al. 1993) and currently has been widely utilised for a large range of business processes (Volker, Van der Lei & Ligtvoet 2011) from engineering, public administration to human resources (Chen & Wang 2018; Volker, Van der Lei & Ligtvoet 2011). Employing this maturity model in PAM helps provide a different perspective (Mollentze 2005; Volker, Van der Lei & Ligtvoet 2011).

The measurement of PAM performance is closely related to the maturity level of the business process (Mollentze 2005). The more matured business process implies that more PAM performance indicators are achieved. The range of business process maturity can be divided into five levels that vary between a point of no business process at all (level 1) and a point where the business process has been integrated across functional and departmental boundaries (level 5). Level 2 of maturity is achieved if there is a business process, yet no documentation is prepared, no training is provided, and no improvement has been made from the previous year. At the next level, the policies and procedures have been documented and well communicated to the personnel in terms of availability and understandability. There is also proof that the organisation revised its last year business process. The higher level requires training in the business process and an appropriate application of personnel roles and responsibilities. At this level, the system supports around 80% of the business process. At the highest level, all elements of PAM performance measurement are covered by the business processes.



### **3.5 Conclusion**

NPM has influenced many governments around the world in many aspects of governance including PAM. The strategies, policies, and regulation of PAM have been reformed to enhance the quality of product or service delivery as well as the quality of the governance itself. Accountability, transparency, and the rule of law are reflected in PAM where asset life cycles become the basis of strategic asset management.

The thesis takes government real property assets as its focus. PAM itself is seen as a decision-making tool to support government agencies activities and as a basis for planning. A PAM framework established shows how six groups of PAM elements namely strategy and planning, decision making, life cycle delivery, asset information, organisation and people, and risk and review are included in a comprehensive organisational strategic plan to cope with demands from customers, regulations, investors, and the financial environment. Performance measurement and contractibility brought PAM to a new level that invites the private sector to manage public assets.

Having discussed the research background, the practices of PAM and PPPs, in Chapter 1 and 2 respectively, in this chapter, the literature review regarding PAM has established an understanding of the related themes. The next chapter will explain the methodology applied in the research.



## **Chapter 4**

### **Public Private Partnerships and Accountability Issues**

#### **4.1 Introduction**

The literature regarding NPM and PAM has been discussed in Chapter 3, and this chapter continues the discussion on the topics of PPPs and accountability.

This chapter consists of six sections, including the introduction and the conclusion. The discussion regarding PPPs is presented in the following section. Then the third section investigates accountability literature as well as the accountability concerns on PPPs. Once the relationship between transparency and accountability has been discussed, the fourth section depicts the gap in the literature, taking into account the discussion from Chapter 3. Last, the concluding section summarises the discussion in this chapter.

#### **4.2 Public Private Partnerships**

PPPs started to be popular around 30 years ago and became common in several western countries as a means for developing their public infrastructures. This trend was predictable as there was a public sector transformation in line with NPM movements in those countries. NPM encourages governments to mimic most private sector practices that lead to smaller organisations, contracting out, and a conception of the government role as a regulator not an active player (Coghill & Woodward 2005). Nevertheless, both perspectives welcome the idea that a government could invite private sector to deliver services for its people.

In the beginning, PPP adoption was seen as a part of a liberalisation agenda of NPM (Grimsey & Lewis 2004). However, over the following years, the perception changed to assume PPPs not as privatisation as the government still has a role as a regulator and a supervisor (Ahadzi & Bowles 2004; The Private Sector Development Initiative 2008).

##### **4.2.1 Public-Private Partnerships for Infrastructure Development**

###### *Concepts and principles*

In the spectrum of infrastructure funding, a PPP is located between government fully funded projects and complete privatisation and within PPPs themselves there are a range of models that can be adopted (OECD 2008; Savas 2000). Researchers have defined PPPs in several ways yet

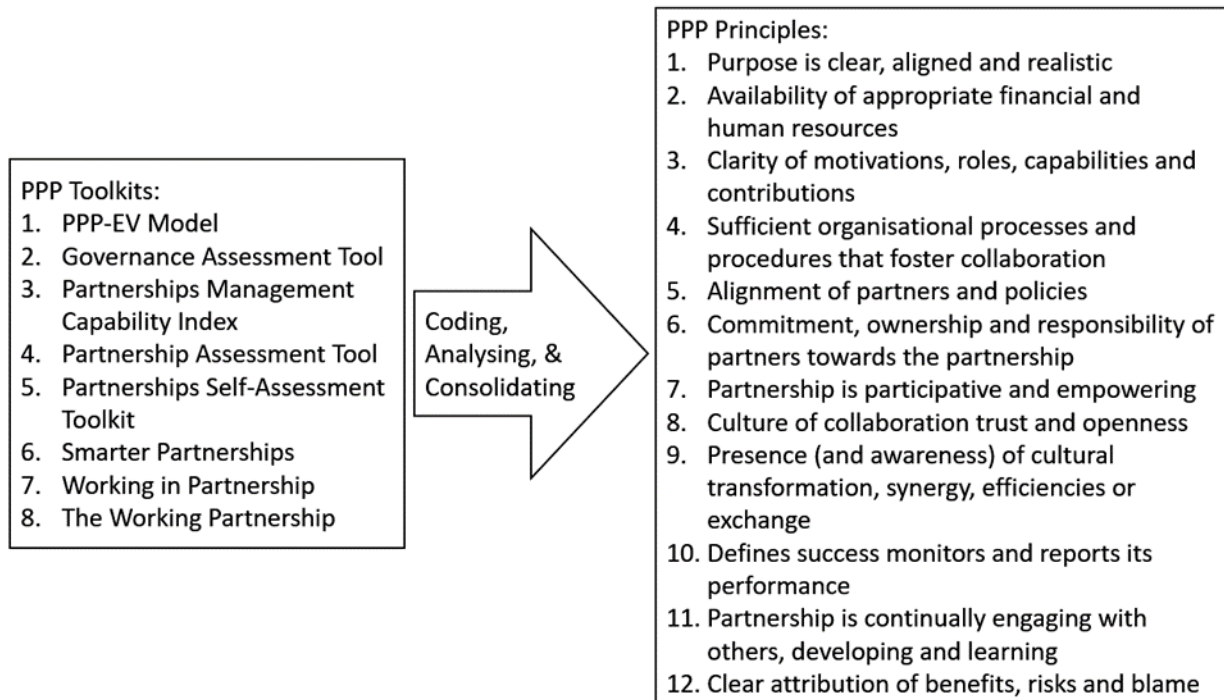
they mostly share attributes regarding time, resources, and risk arrangement. A public-private partnership is defined as an organisational and financial arrangement for a specific time period between public and private sector in which they jointly develop product and services and share risks, costs, and resources which are related to these products and services (Hodge & Greve 2005; Van Ham & Koppenjan 2001).

In determining types of infrastructure funding whether through the government budget or a PPP mechanism, a government conducts a public sector comparison (Yescombe 2007). The purpose of a public sector comparison is to provide the risk-considered cost of a project in the scenario where the project was funded, owned, and operated by the government (Chan et al. 2009). Another decision making method using PPP is the concept of value for money when a PPP project could lower its cost or deliver better services for the relatively same amount (Grimsey & Lewis 2005).

Besides the value for money concept, affordability and balance sheet treatment are also influencing governments to use a PPP scheme (Yescombe 2007). The capabilities of the service users are considered to determine the affordability of the service fees if the PPP scheme is selected. The government uses affordability to bargain with the private sector during the bidding process (Yescombe 2007). Another consideration is how the government presents the PPP projects on their annual balance sheet statement. As part of accountability, the government must follow public sector accounting standards in recording and presenting their PPP projects regarding the decision to (not) recognise the physical assets, financial assets, and liability as well as intangible assets (IPSASB 2012).

A research finding has raised the importance of the twelve principles of an ideal partnership between public and private sector (Jeffares, Sullivan & Bovaird 2013). Those principles were established from eight partnership assessment toolkits as can be seen in Figure 4.1. The toolkits that consist of hundreds of performance evaluation questions are well known and widely utilised by many PPP practitioners but they are still considered to be partial (Jeffares, Sullivan & Bovaird 2013). The research summarises those questions into twelve principles. The finding of those twelve principles has two significant implications: all twelve aspects of a partnership are required to be evaluated across all stakeholders and the result of that evaluation should score highly on all aspects (Hodge & Greve 2011).

**Figure 4.1 – Twelve PPP Principles**



Source: Jeffares, Sullivan and Bovaird (2013)

### *The rationales*

In the broader context, the NPM movement provides theoretical as well as political foundations that encourage the PPPs adoption (Yescombe 2007). The principles of accountability, and transparency promote privatisation of public services, performance based measurement, decentralisation of governmental affairs and separation of public services responsibility between the purchaser and their provision (Yescombe 2007). Partnership is seen as a valuable means to achieve government effectiveness in a way that the partnership seeks for a value increase for stakeholders and the society, as well as representation and dispute resolution (Brinkerhoff & Brinkerhoff 2011).

In a smaller perspective, actors of partnerships both from the public or private sector lay out their course on the basis of one or more of the following rationales (Brinkerhoff & Brinkerhoff 2011). First, the attributes of PPPs, where comparative advantages as well as resources are pooled and labour is rationally grouped into divisions, are believed to promote efficiency and effectiveness. Then, PPPs provide integrated resources and solutions to address the current infrastructure problems which become much more complex in their scope and nature. PPPs also give the chance to exit from a win-lose situation by providing a win-win solution for all multiple actors. This is

part of the dispute resolution attribute of the partnership. Finally, PPPs also serve both normative and pragmatic perspectives regarding more extensive public good operationalisation. While the normative perspective looks for democratic process and representation, the latter emphasises sustainability.

Although governments have several different motives for PPP adoption, the history of PPPs based on adoption motives, can be seen in three stages (Hodge & Greve 2005; Hodge & Greve 2007; Yescombe 2007). In the 1980s, many governments implemented PPPs to increase borrowing capacity since PPPs provided off balance sheet funding. After that, there was a changing intention which was obtaining another benefit from PPPs in the form of efficiency as a result of risk sharing and the competitive tender process. Entering the 21<sup>st</sup> century, value for money has been the prime goal of a PPP (Hodge & Greve 2007).

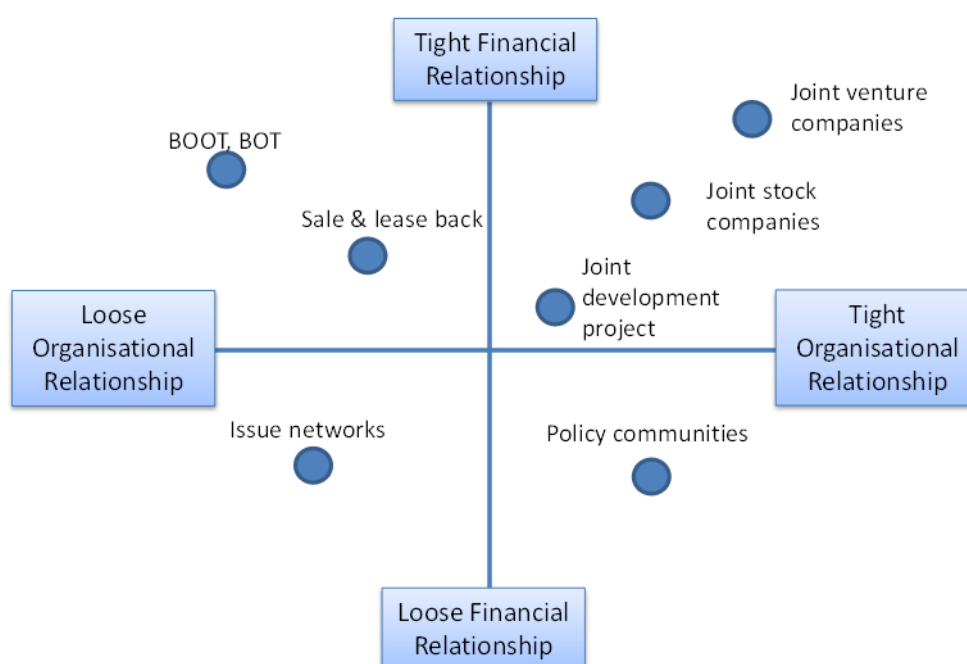
Even though a government has reasons to enter into PPPs, it should consider good practices to obtain the benefit of PPP projects and meet the expectation of the general interest (OECD 2008). The OECD has published ten good practices in the PPP process. Firstly, a PPP is viable if it satisfies the benchmark of affordability and value for money. It means the obligation from PPPs that the government should bear, is still its budget capacity. Then, the design of PPPs targets value for money as its primary goal by considering the quality, characteristic and cost. Third, the government is also obliged to apply its own fiscal rules and expenditure limits on its PPP projects. The PPP related obligations and assets should be recorded appropriately in the government accounting system. Fifth, risk is shared fairly between parties and the private sector partner chosen is the one who can carry risk at minimal cost. To ensure proper risk sharing, the sixth practice regarding competition and contestability must apply. After that, the government should publish its PPP related obligation in its budget documentation. It will present the long term consequences of PPP projects to the public. The next good practice is the government must prepare the regulatory framework and its institutional capacity as well as political supports. Last but not least, to ensure the achievement of value for money, a public sector comparator should be analysed in a go/no-go decision-making process.

#### *Types of partnerships*

PPP types can be divided into four quadrants based on the strength of the financial and the organisational relationship between the government and the private sector (Hodge & Greve 2005). In more detail, joint venture companies, joint stock companies, and joint development

projects are located in a quadrant where both their financial and organisational relationships are tight. In the opposite place, there is an issue-networks partnership where both financial and organisational relationships are loose. Meanwhile, Build Own Operate & Transfer (BOOT), Build Operate and Transfer (BOT) are examples of relationships whose financial relationship is strong but there is a loose organisational relationship. Last, a policy community partnership is located in an area where the organisational relationship is strong, but the financial relationship is weak. Figure 4.2 lays out the four quadrants of financial and organisational relationships.

**Figure 4.2 – A PPP Typology Based on Financial & Organisational Relationship**



Source: Hodge and Greve (2005)

Another perspective classifies PPPs in a continuum of private sector involvement between purely public and purely private (Kwak, Chih & Ibbs 2009). In order of private sector involvement from low to high, some PPP types that can be named are as follows; Operating Maintenance (OM), Design-Build-Operate (DBO), Design-Build-Finance-Operate (DBFO), Build-Operate-Transfer (BOT), Build-Own-Operate (BOO) (Kwak, Chih & Ibbs 2009). In an OM scheme, all aspects of operation and maintenance are the responsibility of the private sector while in the financing aspect, both parties may decide how far the private sector could manage the capital and operational expenditures (World Bank 2007). Next, a DBO contract assigns the private sector to design, build, operate, and maintain a project during agreed upon periods and then hand it over to the public sector (Kelly, Haskins & Reiter 1998). In those two schemes, the involvement of

the private sector is low. The private sector does not have responsibility for providing the financing of the project.

**Table 4.1 – Responsibility Matrix for Conventional Procurement and PPP Options**

Category	Works and Service Contracts (conventional procurement)		Public-Private Partnership				Privatization
	Design, Bid, Build	Design and Build	Management and Maintenance Contracts	Performance-Based Contracts	Lease or Franchise or Affermage <i>Brownfield</i>	Build Operate Transfer Concessions	
Type	Design, Bid, Build	Design and Build	Management Contracts	Performance-Based Contracts	Lease or Franchise or Affermage <i>Brownfield</i>	BOT/DBFO/BOO <i>Greenfield</i>	
Design	Private by fee contract	Private by fee contract					
Build	Private by fee contract					Private by concession contract	
Operation and Maintenance	Public	Public	Private by fee contract	Private by BBC contract	Private by concession contract		Private
Finance	Public	Public	Public	Public			
Own	Public	Public	Public	Public	Public	Public after contract (BOT/DBFO) or Private (BOO)	
Private sector revenue options					Tolls (concession model)		
					Availability payments (PFI model)		
					Government guarantees and support		
					Other support (eg insurance)		

Source: World Bank (2009)

At the higher level of involvement, the private sector is required to provide the financing aspect of the project. That requirement applies in DBFO, BOT and BOO schemes. In a DBFO scheme, the private sector manages the aspects of financing, designing, constructing, operating, and maintaining the project while in most cases the project still belongs to the government (Abdel Aziz 2007; Iseki & Houtman 2012). In a BOT agreement, at the end of the contract, the asset is returned to the government frequently at no cost (Kumaraswamy, M & Zhang, X 2001). Different to a BOT project, under a BOO contract the private sector holds the assets at the end of the



contract and the government is required to pay for the services generated from the project over a specified time (Chege & Rwelamila 2001).

The government could prefer one model of PPPs over another by considering which party will design, build, operate, maintain, finance, and own the project (PPIAF 2009). Table 4.1 displays the responsibility matrix for conventional procurement and PPP options. Then the government, based on sector or project consideration, decides which responsibilities and risks will be transferred to the private sector (PPIAF 2009).

In one example, the DBFO scheme along with other DB contracts is used extensively in developing highways in the U.S. where the government has developed policies and guidance to benefit the project delivery and to minimise the drawbacks of several models of this scheme (Federal Highway Administration 2006). Equally important, every model of a PPP contract has its own advantages as well as disadvantages (PPIAF 2009). The advantages of DB contracts include time and cost saving, and quality improvement, while their disadvantages are closely related to the large contract size, the interdependency of design and construction activities, and favouritism during the tender process (Federal Highway Administration 2006).

### *Debates on PPPs*

The debates on the advantages and the downsides of PPP have been argued by several scholars (McQuaid 2000; Yescombe 2007). The advantages could be categorised into three groups: enlarging the resources of both organisations in terms of financial assets, abilities, knowledge and strength; promoting greater productivity through effective and efficient business processes; and last obtaining robust legitimacy by involving more stakeholders in the government decision-making process (McQuaid 2000). PPPs are also seen as an encouraging factor for the reform of public sector management as they enhance transparency, accountability, procurement skill, and contestability (Yescombe 2007). From the perspective of private sectors, several benefits could be gained once they enter PPP contracts (Chauhan & Marisetty 2019). First, their future cash flows are more certain since the government absorbs the risk of low demand on the services provided by the contracts. Next, the PPPs can be more transparent and attractive to external financial resources. As a result, private sectors can address their problem regarding information asymmetry and increase their investment efficiency by lowering dependence on internal cash streams.

The nature of PPPs which involves private sector in public projects sets up controversies in the political process of decision making. Three issues over the involvement of private sector trigger the opposition to PPPs (Yescombe 2007). First, the private sector partners earn financial profit from PPP projects that in the end could overburden the public with a higher service or product price. The argumentation stands on the assumption of the cost comparison between public-fully-funded and PPP-funded projects. This assumption is not the case because there will be no options between full publicly funded or PPP funded projects. The government simply cannot entirely finance the project (Yescombe 2007). Next, the PPP tender follows a long and high cost process which in the end probably still needs a substantial compromise and re-specification with the winning participant (Pollitt, M 2005). Last, the risk transfer from the government to its private counterpart is not substantially realised. This is because the private sector partner has taken into account all related risks in the prices it charges for the service or product delivered (Loxley & Loxley 2010).

In the developing countries, there are also debates regarding prevalence, costs and benefits, preparation expenses, finance and investment, impacts on poverty alleviation, governance and transformational issues (Leigland 2018). Regarding the prevalence, 'PPPs work much better in middle income economies than they do in low-income countries (Leigland 2018, p. 107).' For developing countries, PPPs' role in their total public investment is below 15 percent (Philippe & Ian 2011). This is because not all projects will be better off using PPPs; most are more efficient if delivered by traditional mean of procurements. Then, by comparing the costs and benefits, PPPs have been blamed for being more costly than traditional procurement. Unreliable public sector comparator data used in a value for money assessment are seen as the cause of PPP's miscalculated planning (Leigland 2018). Governments need to state their intention of entering PPP contracts and communicate transparently to the public.

PPPs have been promoted as a tool in increasing investment from private sectors and at the same time improving service efficiency as well as capacity (Leigland 2018). However, this is not the case in many countries, where private investment does not increase in line with PPPs, yet private sector involvement in several studies of infrastructure projects succeeds in increasing efficiency (Gassner, Popov & Pushak 2008). However, the improved efficiency coming from lower production cost does not lead to a reduction of the service price, which means the majority of society do not benefit from PPPs. One study suggests that this could happen where either the current service has been severely under priced so that even massive efficiency could not decrease

the service price at all, or the private sectors manipulate the weakness of PPP regulation for their own benefits (Gassner, Popov & Pushak 2008).

PPP development has also dealt with defective governance structure (Engel, Fischer & Galetovic 2014) and partial approaches in facilitating more private investment (Eberhard, Kolker & Leigland 2014). The former leads to a poor standard of public work, mediocre design, ambiguous procurement processes and providing an opportunity for private sectors to unfairly increase their profits (Engel, Fischer & Galetovic 2014). The latter has brought a insignificant improvement in private investments as well as fair competition (Eberhard, Kolker & Leigland 2014). International organisations such as OECD, the UN and APEC, have recommended the establishment of a PPP unit for many countries whose role is to regulate the PPP process (Leigland 2018). Nevertheless, the unit should be equipped with the authority to require compliance from related parties and minimise direct preapproval by senior government officials. The latter ensures that every decision is made based on procedural regulations and followed by post audit reviews (Leigland 2018).

#### *Risk and performance management*

One of the prime goals in PPPs is to transfer risk to whichever party has better control of risk and its drivers that leads to the project's real benefit in term of cost reduction (Nisar 2007; Van Ham & Koppenjan 2001). Risks in a partnership can be categorised in several ways but their sources are from both the public as well as the private sector (Van Ham & Koppenjan 2001). Seven risk factors have been identified: political, construction, operation, legal, market, economic and others (Ke et al. 2010). Political risk in PPPs arises when the government with its political superiority enters into a contract with the private sector (Van Ham & Koppenjan 2001).

From top to lower levels, PPP risks also could be classified into macro, market, and project levels (Hastak & Shaked 2000). Some risk indicators in lower levels of risks are influenced by their upper levels. Therefore, at the project level, besides its own, its risk indicators are also affected by macro level and market level risks. At the macro or country level, PPP risks include operational, political, and financial risks. Operational risk comes from the host government, economic and financial, and administrative aspects. Meanwhile, three aspects that influence political risk are external causes which are from regional or international circumstances, internal or domestic causes and symptoms of instability. Last, the financial risk is influenced by the country's legal framework in capital flows, foreign exchange generation, international reserves,

foreign debt assessment, and budget performance. At the market level, the sources of risks are related to technological advancement, contract and legal requirements, factors of production, financing, business cultural variation, and the market potential. At the lowest level, besides those aspects from higher levels that influence the risk at the project level, there are also force majeure events that could happen to the project such as natural disasters and human-caused damage.

Here are some examples of PPP risk indicators and their factors discussed in the literature (Ke et al. 2010). The political risk factor includes risks of concession termination by the government, expropriation and nationalisation, law alteration, and governmental instability. In the construction factor, the risks are dealing with funding sources, design and quality imperfection, technological issues, and labour disputes. During the operation phase, the risks mostly coming from the private sector, include overrun cost, default, low quality, high maintenance expenditures, low productivity, and facility. Next, the market driven risks include lower than expected income streams, volatility of materials prices, and demand fluctuation. Then, inflation risk, interest rates and foreign exchange rates are considered as economic driven risks. Appendix H shows the perspectives from research on how to allocate all those above risks whether fully borne by the government, the private sector, or shared by both parties.

What risks should be borne by which party are stated in the PPP contractual agreement, including the goals and targets that need to be fulfilled by the private parties. Then based on the contract, the parties act resulting in an output delivery either in forms of goods or services. Those outputs are expected to reach the targeted income. Those processes are called the policy domain of PPP development that become the basis of the performance conceptual framework (Wang & Zhao 2018). There are five contractual factors that strongly influence the PPP performance namely private partner selection, financial arrangement, role division, risk sharing, and project characteristics (Wang & Zhao 2018).

Two criteria are considered in selecting the private sector partner, it has resources or expertise that the government needs but they do not own, and it has credibility in the eye of the public sector (Das & Teng 2001; Dyer & Singh 1998). A trustworthy private partner will reduce partnership transaction cost (Wang & Zhao 2018). Regarding financial arrangements, it is decided by both parties how to make sure the project is financially viable in terms of the initial outlay and its financial return. The main issue in the financial aspect is to keep the project cost of capital manageable due to the use of private financing (De Bettignies & Ross 2004). Next, the contractual clarity of the responsibility arrangement between the private sector and the

government increases the chance of a successful partnership (Graddy 2009). Furthermore, the fairness of risk allocation is realised where: the risks are allocated to parties which have better capacity to manage and there are some returns to cover the risks they bear (Abednego & Ogunlana 2006; Akintoye & Beck 2009). Last, the project attributes must be clearly stated. It should enhance PPP effectiveness and performance and also decrease the possibility of future disputes (Chou & Lin 2012).

#### *Key success factors*

Three fundamental factors, namely the market, the environment and the government, determine the success of PPP adoption, especially in developing countries (Yongheng, Yilin & Youqiang 2013). The precondition of the private sector involvement is a working market without which governments are not able to invite private investment. Once the private sector enters the market, the existence of transparency and a well-structured regulatory framework will materialise benefits both for the government in terms of higher efficiency and for the private sector in terms of financial profitability. Last, capable governments with a credible private sector will ensure the effective collaboration between contracting parties (Kang et al. 2019).

Furthermore, PPPs in developing countries are impeded by three existing conditions although these can be addressed with certain strategies (Kang et al. 2019). First, private sectors are not attracted to invest in the proposed projects due to a lack of appropriate incentives. To address this, governments could persuade them by outlining tangible benefits, promoting a transparent bidding process, and offering tax incentives or other concessions for low profit projects. Second, it is difficult to pursue market success while promoting public accountability and participation as parts of democratic principles. Public resistance frequently emerges after the projects have been launched because of low public participation in the early stages of the projects. An effective public relations strategy must be designed to educate the public about the project and to discuss their concerns from the planning stage. Last, there is a lack of cooperation amongst developing countries where they could share experiences, information, and best practices. The establishment of a knowledge centre and discussion forum is necessary to learn from other countries' problems and solutions (Kang et al. 2019).

#### **4.2.2 PPP Adoption in Utilising Public Assets**

The portfolio of public assets consist of properties to serve the circumstances of PAM as the government core business, and surplus properties (Kaganova & Nayyar-Stone 2000). The surplus assets include those that are fully unused and underutilised or partly used. Yet those situations lead to inefficiency (Kaganova 1999). The options are limited for the government to address the problem of surplus assets either to dispose of them by selling to the private sector or to utilise them. The first option is limited by the country's legal system and national interest protection (Kaganova & Polen 2006). The latter brings implications of significantly large funding requirements and lack of expertise in the government sector. PPPs are seen as a viable solution in utilising public assets whether the assets are surplus, or underutilised, and need further development (Kaganova & Polen 2006).

Some countries have obtained benefits from PPPs in managing either their central or local government properties. The UK and US have been known for implementing PPPs to increase the benefits of their properties (Kaganova & Polen 2006). Two cases of inviting private sector in utilising government assets are the UK PRIME Project and US Army Walter Reed Medical Centre (Kaganova & Polen 2006; The UK National Audit Office 1999; Wiener 2012). The first example shows how the Department of Social Security of the UK contracted the private sector to develop one of its properties in a 20-year deal. The private sector was obliged to: provide an upfront payment to the department; develop and maintain the premises; allocate some percentages of the facilities to the government; and share the profits they generate (Kaganova & Polen 2006; The UK National Audit Office 1999).

The second case gives an example of how the US Government addressed the problem of its highly regulated military sites where demolition, privatisation, relocation and military construction funding were not legally possible (Kaganova & Polen 2006). An underdeveloped military medical facility was located in a historic region amidst the problem of growing patient numbers. A private developer was invited to renovate, operate, maintain, and manage the facility which was known as an 'enhanced use lease' (Kaganova & Polen 2006; Wiener 2012). Besides that, the developer also had the obligation to pay the government during its half decade contract. One clause of the contract stated the developer could propose another business plan on another facility of the site. Later this clause sparked controversies due to lack of public involvement (Wiener 2012).

The reasons why those governments contracted with the private sector in managing their properties can be explained in seven broad categories (Kaganova & Polen 2006). First, like other PPPs, the government expects fiscal and financial benefits from the development of public or commercial facilities without spending any public money, even in many cases receiving funding. Then, the risks can be transferred to the party to manage best. These risks include property development and management risks. Therefore, the government can focus on their core activities. The partnerships are also believed to bring more control over the delivery quality through output-based specification, performance management, and incentives. Then, due to the long-term contract on those projects, the property's values are secured, and the private investment is also protected from cyclical political situations. The long-term contract also makes cost reduction possible through life-cycle costing. Efficiency can also be increased through expertise and innovation brought by the private sector. Last, some countries avoid full privatisation of their properties. Hence, PPPs can increase their asset productivity while they retain the ownerships.

### **4.3 Accountability**

#### **4.3.1 Accountability Theory**

##### *Concepts and definitions*

Accountability terminology can be traced to middle age Europe where it comes from the traditional book keeping function that then developed into accounting and the process of auditing (Boven 2005). The transformation of accounting into the accountability concept was then followed by other paradigm shifts: from compliance to performance, from internal to external accountability, from financial to public objectives, from vertical to horizontal accountability. In the wake of NPM, accountability became more popular both among academics and government practitioners as NPM shifted the perspective of the government from a bureaucratic ethos of office to a managerial system (Lægreid 2014).

Several scholars developed different conceptions regarding accountability based on the context of their particular research areas as well as their multi-discipline backgrounds (Mulgan 2001; Sinclair 1995). Accountability is seen based on what branches of science or discipline the scholars have. A law academic put more emphasis on legal accountability. Likewise, an auditor values accountability more on numbers presentation and financial perspectives. In another

example, from a socio-cultural perspective, accountability is viewed as a social psychological experience that falls within many contexts that bring social and cultural effects.

The accountability concept also can be approached through some discourses: incentivisation, juridicisation or formalisation, mechanisation, and institutionalisation (Dubnick 2014). In the incentivisation discourse, performance measurement becomes the basis in assessing whether someone or a party is accountable. That people are positively responding to anything about their performance, is the basis of this discourse. The other three discourses promise justice, control, and democracy, respectively. Justice can be reached through legal formalisation to suppress undesirable behaviours. Then, control can be served properly when a set of mechanisms oversee and give directions for members of an organisation. Last, democracy is achieved by power restraining, answerability and management responsiveness (Dubnick 2014)

Performance measurement as a basis for accountability has been debated for years. Performance measurement is one of three practices which encourage the incentivisation to achieve accountability. The other two are total quality management and performance management (Dubnick 2014). For the proponent of incentivisation, performance measurement has three factors in enhancing accountability (Martin & Kettner 1997). Firstly, it takes into consideration the main perspectives of governmental accountability which are effectiveness, efficiency and quality. Secondly, performance measurement requires the most appropriate unit of analysis within an organisation. By doing so, the performance of many aspects within the organisation can be compared. Finally, at all levels of government, performance measurement is well known and seen as having a positive impact on target achievements.

Apart from accountability, performance measurement can also be a tool to improve performance or in other words performance measurement for performance (Halachmi 2002) The first tries to make sure that all actions are conducted based on plans and standards and as a result those actions are justified in the eye of auditors. The latter emphasises learning process, exploration and benchmarking with industry best performers. All those processes have a perspective of achievement and provide room for discussion within organisations to decide their future objectives (Halachmi 2002).

Yet, the use of performance measurement to promote accountability has never been flawless for some reasons (Halachmi 2002; Julnes 2006). The concept of performance measurement for accountability is blanketed by audit characteristics (Halachmi 2002). Management has been



discouraged from deviating from detailed plans to avoid difficulties in the audit process even when they realise that the deviation is for the public interest. In many cases, once management deviates, they are required to provide a justification and supporting documentation, and this becomes an obstacle in the form of unnecessary management distress (Julnes 2006). As a result, a required adaptation cannot be made in fast changing circumstances (Halachmi 2002).

Despite that, performance measurement can still be beneficial for encouraging accountability through oversight and compliance, given preconditions (Julnes 2006; Scheirer & Newcomer 2001). In the first place, the outcomes of the program are to be a direct result of the activities measured, which is called 'attribution' (Scheirer & Newcomer 2001). Then, the goals and objectives must have been appropriately developed which indicates whether the program is conducted on the right track (Julnes 2006). Last, the product or service must be simple enough to be clearly monitored and evaluated to verify the outcomes (Julnes 2006).

In the formalisation discourse, the narrative of accountability examines legal punishment processes within the organisation to protect it and its members from damaging behaviours (Dubnick 2014). In another perspective in this discourse, accountability is based on the relationship between a controlling external party and members of the organisation (Romzek & Dubnick 1987). That external party has the power to assess the behaviour of the members and deliver sanctions whenever they see fit based on the contractual obligations (Romzek & Dubnick 1987). Accountability is a two dimensional concept made up of answerability and enforcement (Schedler 1999). Answerability deals with the obligation to explain either about the factual information or the reason behind those facts. Meanwhile, the enforcement dimension ensures that the relationship between the controlling and the controlled is respected by providing a legal base (Schedler 1999).

As a mechanism, accountability is used to manage the activities and behaviour within an organisation through administrative control, procedures, a reporting system, and an auditing process (Dubnick 2014). In this view, the process is to answer to a superior/account holder/principle regarding the actions by an accountant/steward (Mulgan 2000). From this perspective, accountability can be explained as an actor and a forum relationship in which the first is obliged to justify their behaviour, and the latter can raise enquiries, draw a conclusion, and deliver rewards or sanctions to the first (Bovens 2007).

In contrast, some scholars view accountability as a virtue as a result of the good behaviour of members of an organisation (Messner 2009; Roberts 1991). Accountability is related to the positive attitudes of members of an organisation dealing with moral practice considerations (Messner 2009). This view consequently delivers the understanding that accountability plays a role as guidance in public sector organisations where they intrinsically have the ability to self-control (Romzek 1996) and checks and balances (Michael 2005).

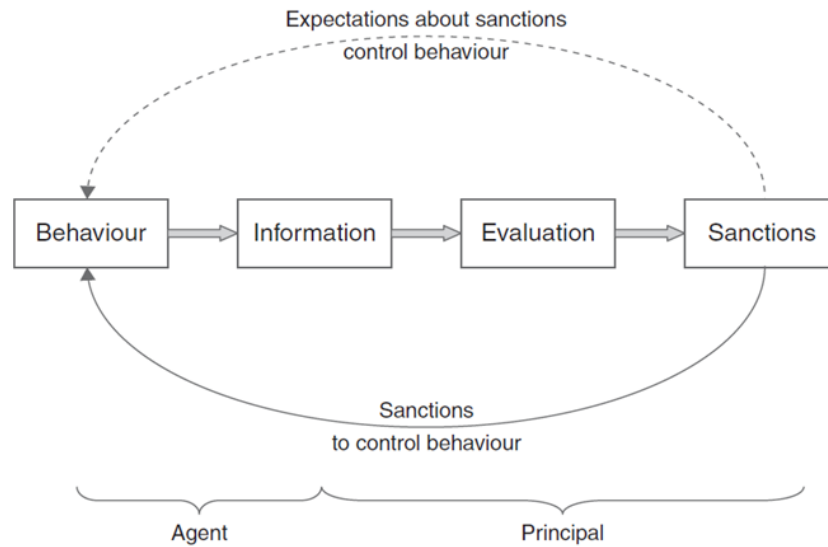
In the institutionalisation, constraining power and fostering answerability as well as officers responsiveness are objectives of the accountability arrangement (Dubnick 2014). Institutionalised accountability is achieved by an established framework regardless of the quality of all players in the system of democratic and modern governance (Dubnick 2014). The framework can guarantee accountability because of the two main principles of self-responsibility and checks and balances installation (Michael 2005). Driven by self-responsibility, an institution creates accountability mechanisms and self monitoring. In a public sector, the management of an accountability promoting institution is advised to search for better methods of making the institution accountable to other agencies and to the public. The checks and balances principle gives incentives for self-monitoring and, if the self monitoring system has flaws, simultaneously plays a role as a second layer keeper. An example of relationships between three agencies is where each watches itself and the other two which means there are nine 'watching relationships' (Michael 2005).

### *Principal agent theory*

Principal agent theory explains the social relationship between two players namely the principal and the agent (Guston 1996). The former represents the owner of resources who does not have either the opportunity or the ability to utilise them. The latter is needed to operationalise the resources for the best interest of the former (Guston 1996). Based on this circumstance, accountability can be defined as:

Relationships in which principals have the ability to demand answers from agents to questions about their proposed or past behaviour, to discern that behaviour, and to impose sanctions on agents in the event that they regard the behaviour as unsatisfactory (Keohane 2002, p. 3).

**Figure 4.3 – Accountability**



Source: Steets (2010)

Figure 4.3 presents four aspects of accountability conducted by the agent and the principal where the agent acts based on the interests of the principal, then reports for assessment purposes to the principal resulting in feedback in the form of rewards or sanctions (Steets 2010). The principal obtains information both from the agent or third parties such as auditors (Islam et al. 2010; Ittonen 2010; White & Hollingsworth 1999). The role of auditors in enhancing accountability will be discussed later in this chapter.

The relationship between principals and agents involves several dilemmas such as asymmetric information as agents usually hold more information than principals, and interest divergence when both parties have different agendas (Broadbent, Dietrich & Laughlin 1996; Leruth & Paul 2008). Both players seek for their own personal interest and tend to be opportunistic. Those characteristics bring two collective action problems: moral hazard and adverse selection (Guston 1996). From the very beginning, the principal has insufficient information regarding the capabilities and trustworthiness of potential agents which can lead to the adverse selection where the best candidate is not selected. Because the asymmetric information relationship exists, the principal does not have certain knowledge as to whether the agent is acting in their best interest. The asymmetric information leads to the problematic moral hazard where the agents have opportunities for both conducting the required tasks and for seeking rent for themselves (Guston 1996).

For developing countries which suffer institutional weaknesses, asymmetric information is a significant problem. In those countries, the public institutions have constraints in four areas, namely regulatory capacity, accountability, commitment and fiscal efficiency (Estache & Wren-Lewis 2009; Laffont 1998). Those constraints arguably come from the following problems: agency limitation in acquiring skilled staff, higher frequency of corruption and collusion between related interest groups, numerous contract renegotiations, lower private sector investment, and limited fiscal revenues (Estache & Wren-Lewis 2009; Laffont 1998). Another study proposes that institutional and political weaknesses can lead to a more severe problem, a higher level of state-constraining corruption (Khan & Gray 2006).

The agency problems related to moral hazard and adverse selection as mentioned above can be addressed by ordinary solutions namely *ex ante* and *ex post* controls and sanctions (McCubbins, Noll & Weingast 1989; Moe 1984; Schillemans & Busuioc 2015). In the first place, both players settle on a remuneration system based on the performance of the agent and then the principal sets up monitoring procedures and oversight agencies to verify the agreed performance targets (McCubbins, Noll & Weingast 1989). Besides the reward system, the contract between the principal and the agent must be able to minimise the negative effects of informational asymmetries (Moe 1984). The *ex post* actions taken by the principal include establishing monitoring procedures to ascertain that the agent acts based on the principal's best interests and that the information provided is reliable (McCubbins, Noll & Weingast 1989).

The principal agent theory is widely used to explain the accountability process due to its ability to descriptively, explanatorily, and predictively assist research findings in this domain (Schillemans & Busuioc 2015). However, contemporary research findings oppose several common expectations in accountability processes between principals and agents (Schillemans & Busuioc 2015). In a broader context, the principals and the agents are not just two parties. Accountability process involves an actor, who is obliged to answer to a forum (Bovens 2007). A forum is different to a principal, it could be the principal itself and other third parties who can seek answers from the actor. The first finding reveals that forums do not always pay attention to their delegated tasks to the actors. In some cases, the forums simply neglect the delegation process or even worse, they act to contravene their own established contracts. Instead of addressing agency problems, the forums drift away from the contractual agreements.

Still from the same literature, principal agent theory sees that the source of problems is the agent's self-centred and opportunistic attributes. However, the findings indicate the opposite condition

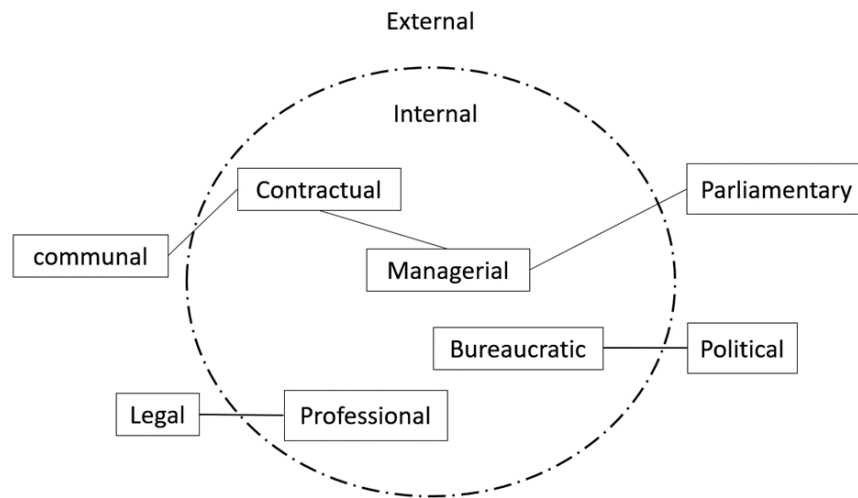
where the actors or the agents are highly attached to their job description (Schillemans & Busuioc 2015). The third finding is that the level of actors' autonomy is much lower than expected. Despite task delegation, the actors are still highly influenced by the accountability forum in their actions taken. This is due to the fact that the actors are compelled to answer to a large number of bodies as well as their internal superiors. Next, contradicting the assumption that agents would try to deviate from their delegated tasks, in numerous projects, the actors seek accountability and inform their forum, and even design their own accountability mechanisms.

Principals are also assumed to pay considerable attention to the information provided by the agents. The findings once again show a different situation where many members of the forum neglect the reports. In many cases, the forum requires comprehensive and more detailed information regarding the agents' performance. But once the reports are in their hands, they seem to lose interest. Then, as the principals have the power to deliver sanctions to underperformed agents, it is expected that they will exercise the power to boost the performance. Yet, some findings indicate that the forum is hesitant to do this. In some cases, the contract is extended given the actors failed to meet the targets. To sum up, all findings could move the central issue in the accountability process from agency problems to forum activation in enhancing their accountability roles (Schillemans & Busuioc 2015).

### *Classification of accountability*

In practice, accountability can be differentiated into several types: internal and external accountability; political and bureaucratic; communal, contractual, managerial and parliamentary; legal and professional (Demirag, Dubnick & Khadaroo 2004; Halligan 2007; Romzek & Dubnick 1987). Those classifications overlap each other where some types of accountability actually could be included in other types. Contractual and managerial accountability could be considered as part of internal accountability. Figure 4.4 presents four classifications of accountability.

**Figure 4.4 – Types of Accountability**



Source: Demirag, Dubnick and Khadaroo (2004), Halligan (2007), Romzek and Dubnick (1987)

Internal and external accountability are also known as vertical and horizontal accountability respectively (Halligan 2007). In the public sector, internal accountability represents a bureaucratic hierarchy where the minister at the top of the pyramid are responsible to the parliament. The relationship between the ministers and the parliament is external accountability but also can be referred to as parliamentary or political accountability (Demirag, Dubnick & Khadaroo 2004; Romzek & Dubnick 1987). Another classification is arranged not only based on the source of agency control, internal or external, but also by how strong the control is over the agency. Bureaucratic and legal accountability have a higher degree of agency control than the professional and political (Romzek & Dubnick 1987).

In relation to the process of government projects, accountability can be divided on the basis of project phases: communal, contractual, managerial, and parliamentary (Demirag, Dubnick & Khadaroo 2004). Communal accountability takes place prior to the project selection. It aims to seek community involvement through public consultation and to incorporate their voices in the decision-making process. Once a project is planned to be developed and an agent has been appointed through a tender process, a contract is signed by both the agent and the principal. The contract clearly displays the set of performance standards in specific enforceable terms and conditions. This process is called contractual accountability. The next stage is managerial accountability when the actors are asked to be accountable for the production process or service delivery and the utilisation of allocated resources (Sinclair 1995). In the end, in parliamentary accountability, the public sector is held accountable to the parliament regarding their issued and

conducted policies. In a democratic country, parliamentary accountability requires an audit report to investigate how the project was planned, operationalised, and reported (Demirag, Dubnick & Khadaroo 2004).

In a democratic environment, a government organisation is held accountable not just for finance, but also for fairness and for performance (Behn & Brookings 2001). Financial accountability refers to how an accountability holdee answers to an accountability holder regarding financial resources or any resources that can be monetised under their stewardship. In this type of accountability, the government is held accountable to be fair to all its stakeholders including employees, clients, and ultimately their citizens. Not just for the resources they manage and for their attitudes toward other parties, the government also must answer questions regarding their achievement or performance (Behn & Brookings 2001).

### *Roles of audit*

In the relationship between the principal and the agent, there are four conditions that require an auditing process, namely potential or actual conflict of interest, errors consequences, complexity and remoteness (Ittonen 2010). Firstly, the agent or the management who prepares the information, mostly financial, as the answer to what they are accounted for, has a conflict of interest on the report submitted. The management can deliberately or unintentionally deliver biased information regarding their performance. The former is due to the incentive they could obtain, and the latter is due to selecting accounting principles and methods favourable to some stakeholders yet unfavourable for others.

Secondly, the management report is an input for stakeholders in a decision-making process. They need reliable and complete information. The consequence of errors is enormous. The accounting process and financial statement preparation are highly complex as is the process of interpretation of information. Most financial statement users do not have sufficient knowledge therefore they need auditors to give opinions regarding the quality of the financial statement. Even if the users have accounting and auditing knowledge, in most circumstances, they cannot directly access the accounting details nor audit the financial statement. Legal and institutional impediments prevent them doing so (Ittonen 2010).

**Table 4.2 – The Financial Statement Assertions**

Assertions	Related to:		Definition
	Related to transactions for the year	Assets, liability & equity at the end of the year	
Occurrence	✓		The transaction occurs
Completeness	✓	✓	All transactions and accounts are completely recorded
Accuracy	✓	✓	The amounts are accurate based on proper valuation and/or allocation
Cut off	✓		The records are in the appropriate period
Classification	✓	✓	The records are in the correct account
Presentation	✓	✓	Proper aggregation or disaggregation
Existence		✓	The accounts exist
Rights and obligations		✓	The entity has the right to its assets and obligations on its liabilities

Source: Clikeman (2004), IAASB (2018)

A financial statement is assertions of the management regarding the recognition, measurement, and presentation of the entity's transactions and an audit process is meant to verify those management assertions (IAASB 2018). Types of assertion vary yet there are five well known assertions namely existence or occurrence, completeness, valuation or allocation, rights and obligations, and presentation and disclosure (Clikeman 2004). The definition and type of the assertions are presented in Table 4.2.

#### **4.3.2 Accountability Questions of PPPs**

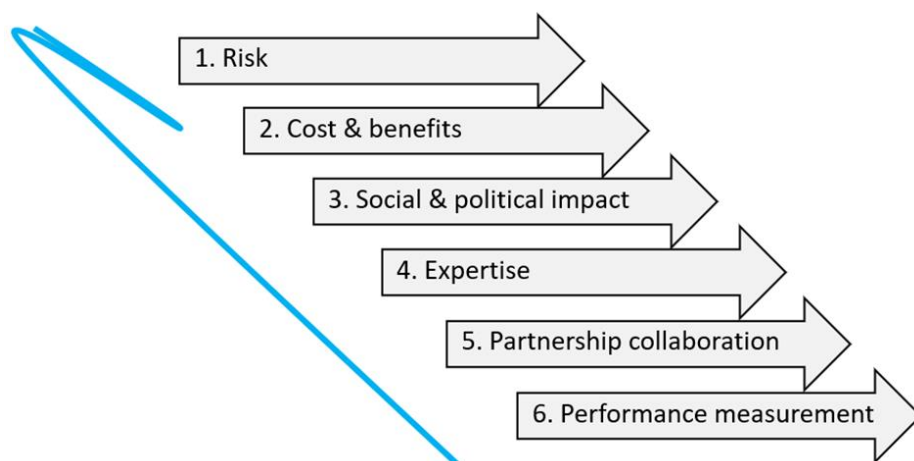
In a government citizen relationship, society plays a role as the principal and the government as the agent (Behn & Brookings 2001). The agent's duties are for the sake of the principal by providing obligatory services to ensure the state of welfare of its society. Moreover, in PPPs, one additional party joins in the principal-agent relationship which triggers a more complex challenge in designing the role of both parties (Forrer et al. 2010). The agency problem occurs in PPPs due to a compounded agency relationship where the private sector is an agent of the government; meanwhile, the government is an agent of the citizens (Trailer, Rechner & Hill 2004). The government is obliged to ascertain that its partner acts in the best interest of the citizens as service users. However, in some countries, the pervasive involvement of private sector in many aspects



of PPP, including policy consulting, project advice and evaluation, and project investing, have raised the concerns about whether PPPs still position the public interest as their ultimate objective (Shaoul, Stafford & Stapleton 2007).

Five consequences of accountability problems have been identified namely goal deviation, budget windfall, moral hazard, unsound incentive payment system, and opportunistic parties (Elliott & Salamon 2002; Posner 2002). The utilisation of other parties to conduct the government project is called third party governance (Posner 2002). The interests of the private sector can be different to those of the public sector as the former is profit driven and the latter is public delivery maximisation. Different interests could lead to goal deviation from the partnership contractual agreement. Next, the utilisation of government budget in a partnership project can serve as a bonus for a non-targeted segment of the public. The public do not obtain the real benefit of the government expenditure. In many partnership contracts, governments provide guarantees to the private sector when circumstances are supportive for the projects. This is to encourage the private sector to take over several risks (Kumaraswamy, MM & Zhang, XQ 2001). Those guarantees can expose the private sector partner to moral hazard to act imprudently and worsen the risk and undermine the partnership objectives (Posner 2002). Moral hazard discourages the private sector attitude toward productivity and efficiency. Last, all previous consequences can trigger opportunistic actions by private sector to pursue their profit maximation regardless of achieving the objectives of the program (Posner 2002).

**Figure 4.5 – PPP Accountability Framework**



Source: Forrer et al. (2010)

In order to identify and address accountability concerns, several approaches, such as measuring PPP elements and setting accountability standards, are proposed (Demirag, Dubnick & Khadaroo 2004; Forrer et al. 2010; Steets 2010; Watson 2003). There is a framework of six elements namely: risk, costs and benefits, social and political effects, expertise, partnership collaboration, and performance measurement as can be seen in Figure 4.5 (Forrer et al. 2010). The framework is built on the basis of goodwill from both contracting sides which is implemented by determining proper responsibilities, compliance and a monitoring system (Milward & Provan 2006). Furthermore, financial resources, regulation compliance and products/services delivered, are factors the agent must be accountable for (Steets 2010). Those factors together with types of partnership are the basis for the development of the accountability standards.

The allocation of various risks is the main reason for governments to enter PPPs to develop infrastructure projects. The risk allocation process determines which risks are retained by governments, solely borne by private parties, or shared together. The process requires risk identification and knowledge about parties' expertise. The final decision is taken based on proper negotiation between parties (Abednego & Ogunlana 2006; Bing et al. 2005; Van Ham & Koppenjan 2001). Furthermore, risks could be associated with project stages: planning, construction, operation, and termination. In the early stages, most risks, such as political risks are retained by the government, while in the construction and operation phases, the private sector partner bears more risks. In the termination period, again the government has more roles in assuming certain risks, for example, force majeure and residual value risks (Yescombe 2007).

Failures in appropriately allocating risk could bring damages to the partnership's accountability. If the private sector partner is overburdened with risks within a PPP, it could lead to a situation where the partner behaves passively by not taking any necessary actions just because those particular actions are not prescribed on the contract (Forrer et al. 2010). In another circumstance, where the government bears more risk than it should the private sector partner will benefit from a supernormal return.

The next element is a benefit-cost concept that is closely related to a value for money concept. Both concepts promote the idea that the benefits of PPPs must outweigh the related costs incurred and shed light on the opportunity costs and benefits of not entering a PPP in conducting public projects. In assessing value for money, governments have a range of different approaches from just relying on competing bids, analysing public sector comparators and the most comprehensive approach is by conducting a full benefit-cost analysis (Grimsey & Lewis 2005).

Public perception of the triumph of PPPs depends on the continuity of service delivery (*Encyclopedia of Public Administration and Public Policy* 2005) and positive social political impacts. As a consequence, the partnership should be able to manage social and political issues due to their dynamic development by gaining support, from social and political players in the society (Forrer et al. 2010). Compared to the public sector, the private sector are assumed to have a competitive advantage in the knowledge of their specific sector based on long experience. This knowledge could encourage higher efficiency, improve project management ability, and deliver a more innovative business process (Hodge & Greve 2005).

The penultimate element of the framework is partnership collaboration. To be fruitful, collaboration requires some preconditions including a clear yet flexible contract, efficacious leadership, effective communication, operational project management, and a trustful relationship (Forrer et al. 2010). Collaboration and control differ in many important aspects (Sundaramurthy & Lewis 2003). The collaboration's theoretical basis is stewardship theory that promotes cooperation, self-actualisation, and communalities. Furthermore, the underlying motive for collaboration is high-value commitment to achieve growth and performance enhancement through goal alignment and trust building in a long-term relationship.

Finally, the partners need to be cautious in the performance measurement as it is the basis for rewards as well as sanctions, especially for those that are imposed on the agents in implementing the contractual objectives of PPPs (Forrer et al. 2010). Both financial and quality performance could be internally and externally measured (Boston 1996). The financial performance includes business process efficiency and resource utilisation while quality performance incorporates service and process quality and customer satisfaction.

Despite the above scepticism, a PPP is still argued to amplify the accountability potential for four reasons: its output and performance orientation; the private sector's willingness to share the risks; the societal, operational, and financial achievements; and efficiency enhancement and knowledge transfer from the private sector (Willems & Van Dooren 2011). Nevertheless, the same study also recognises that on one side, PPPs diffuse accountability from its traditional perception provided that the government loses some direct political control over PPP projects that could harm the process of being asked to account by the parliament.

**Table 4.3 – PPP Phases, Types of Accountability and Drivers of Value for Money**

<b>PPP Phases</b>	<b>Description</b>	<b>Types of Accountability</b>	<b>Value for Money Drivers</b>
Initiation	Business needs establishment, options appraisal and business plan preparation	Communal	PPP is better than public sector comparator
Set up	Project team establishment until contract award and financial close	Contractual	accomplishment
Internal monitoring	Contract management (new processes, systems, and management systems) are put in place	Managerial	Efficiency and effectiveness
External monitoring	Assessment by NAO and Audit Commissions and the results are delivered to the legislature	Parliamentary	Policy objective fulfilment

Source: Demiraq et al. (2013)

Accountability in PPPs has been seen in several perspectives. Besides six aspects of accountability (Forrer et al. 2010), another perspective mentions about four forms of accountability that are relevant within a PPP namely communal, contractual, managerial and parliamentary (Demirag, Dubnick & Khadaroo 2004). The latter perspective also takes into consideration the phases of PPP in relation to certain types of accountability. The friction between accountability and transparency on the one side, and efficiency and commerciality on the other side, generates four issues of accountability namely the disclosure diffusion, comprehensive government accountability, risk allocation and management, and confidentiality (Watson 2003).

Table 4.3 depicts the relationship between four types of accountability and PPP phases (Demirag, Dubnick & Khadaroo 2004). First, communal accountability is defined as a less formal relationship between a principal and an agent. In contrast, within contractual accountability, the behaviour of an agent and information requested by a principal are explicitly depicted in a binding contract (Laughlin 1996). The communal and contractual accountabilities apply in the initiation phase and set up phase, respectively. In the initiation stage, communal accountability is applied during the process of consultation and discussion with stakeholders about their needs, ending with the decision whether a PPP is superior to its public sector comparators.

Furthermore, the concept of managerial accountability is described as internal in comparison with parliamentary or political accountability (Mattei 2007). Managerial accountability is about

whether the agent satisfies the questions of used resources, agreed upon procedures, and the defined criteria of the outcome. Meanwhile, parliamentary accountability focuses on how the government, as a principal in a PPP, justifies their decisions (Demirag, Dubnick & Khadaroo 2004; Mattei 2007). Once, a contractual agreement is agreed upon at the end of a selection process, then the relationship is solely based on contractual accountability. Next, the private sector constructs the PPP structures, delivers products and services, and the government assesses the performance of the private partner based on efficiency and effectiveness measures. This view is from a managerial perspective. Last, in external accountability, the government reports to the parliament through independent due diligence, through an autonomous institution such as a supreme audit board.

As mentioned above, issues of the disclosure diffusion, whole of government accountability, risk allocation and management, and confidentiality, cloud the accountability practice in PPPs. In a PPP, three possible reporting statements can confuse the readers of accountability holders (Watson 2003). The reports in a PPP project come from the government agency, the private sector, and the partnership entity itself. Each entity has its own reporting standards and procedures to deliver confusing pieces of information. In a more complex PPP arrangement, there are two or more government agencies involved as well as the private sector where multi companies are involved. This brings more difficulties in tracking the accountability of all those contracting parties. The situation requires whole of government accountability under inter-jurisdictional regulations (Watson 2003). After that, risk allocation, more appropriately risk transfer from the government to the private sector is the main attribute of PPPs. The PPP contract must arrange a risk-sharing agreement transparently and accountably. In fact, the PPP itself is complicated by its long-term contract in an uncertain environment that encourages not only the private sector but also the government to show their opportunistic behaviour, the behaviour that brings accountability concerns (Watson 2003). In regard to confidentiality, governments and private sector have different concepts of confidentiality. The private sector partners view their property information as classified since it provides them with competitive advantages. The accountability issue in this circumstance is to appropriately categorise which information is commercially confidential and which needs to be disclosed (Watson 2003).

In a democratic country, the parliament holds the authority to assess how the government perform its duties accountably. In doing so, the parliament has or is helped by agencies such as auditors or public accounts committees in obtaining complete, clear, and valid information. In Australian

state governments, a Public Accounts Committee (PAC) assesses the accountability process of PPPs from the very beginning (Watson 2004). In the initiation stage, the PAC creates parameters by identifying the service required and assessing preliminary evidence. In this stage, they gather information about government understanding and articulation, the relationship between the PPP proposed contract and the required public services, and a comparison between the PPP proposal and other options. The result of this investigation will tell the PAC whether the PPP has met the value for money requirement through the best delivery mechanism (Quiggin 2003; Watson 2004). In the second stage of PPPs, the PAC analyses the soundness of the business by assessing risk sharing and public sector comparators. Next, in the tender process, three qualifications have to be fulfilled: a competitive bidding process attracting independent companies to participate; the capable winner in terms of financial aspects and experiences; and appropriate risk sharing with specific private sector. In the monitoring phase, the PAC manages to obtain assurances about performance measurement, contract renegotiation, and favourable or unfavourable scenarios regarding windfall profits. The final assessment is of the whole project life. Has the project achieved a value for money outcome? Is there any room for improvement? Otherwise, what actions are needed to rectify the undesirable condition? (Watson 2004).

#### **4.4 Transparency and Accountability**

The basic idea of transparency states that knowing they are being monitored; people behave appropriately. This idea comes from a common practice in a jail where the inmates are continuously watched by the guards (Meijer 2014). The modern concept of transparency states that it has five characteristics namely accessible, comprehensive, relevant, qualified, and reliable (Vishwanath & Kaufmann 2001). The accessibility of information could come from a legal basis or at least from the principle of reporting. Then, the relevant criteria make sure that the users obtain all relevant information in regard to their needs. The quality and reliability of information are measured based on a certain standard set by the organisation and constantly monitored by particular agencies such as auditors (Vishwanath & Kaufmann 2001).

The relationship between transparency and accountability can be seen directly, indirectly, and inversely (Meijer 2014). The direct relationship between those concepts can be seen from the fact that horizontal accountability is facilitated by transparency. More transparent government provides better public accountability in the absence of formal formats and sanctions (Meijer 2007). Meanwhile the indirect relationship occurs in the case of vertical accountability where

transparency provides ‘a fire alarm’ if something goes wrong. The accountability forum / principal is warned by other parties when wrongdoing is indicated by the actor/agent (Meijer 2014). Different to those direct and indirect relationships between transparency and accountability which show a positive correlation, there could be an inverse relation. Transparency in many cases reduces the need for a formal accountability mechanism because transparency and performance measurement merge into the idea of accountability (Erkkilä 2012). The necessity for debate between principals and agents fades as the transparent report already displays the full story (Meijer 2014).

Some scholars view transparency as part of accountability with three other components namely answerability, compliance and enforcement (Ebrahim & Weisband 2007; Roberts 2009; Spicer 2017). Within the public administration domain, transparency and accountability are frequently contrasted with efficiency and commerciality, which are the prime objectives of private sector, due to the trade-off between those two groups of concepts (Watson 2003). Though accountability is presumed to be spawned by transparency, this conjecture is not always the case (Fox 2007). In order to delineate the relationship between transparency and accountability, four issues need to be addressed, including: who are the targets of accountability whether an institution or individual; who controls the quality of information; what type of transparency whether clear or obscure; and leading to the question of what different type of accountability it is whether it is soft or hard (Fox 2007).

Firstly, it is necessary to understand two different accountability targets of transparency reform (Fox 2007). The former targets fraud eradication, the latter focuses on organisational performance. While the former tends to be more legalistic in addressing personal mistakes, the latter displays a wider perspective by emphasising systematic faults (Fox 2007). In PPPs, this issue becomes considerably more complicated due to the involvement of private parties in the production process.

Next, an independent audit is important for the disclosures of organisations by assuring their quality (Fox 2007). There is no so-called a hundred per cent assurance of every audited report. Yet, there are possibly two extreme faults resulting from a performance audit (Power 1999). The first fault is where transparency is superficial and does not have any relationship with factual efficiency. In the second one, the transparency triggers excessive control resulting in defective operations of the auditee.

The third issue differentiates between the characteristics of clear and obscure transparency. The former discloses reliable performance measurement and the latter misleads the readers of the report in their decision-making process (Fox 2007). The last issue lucidly portrays the connection between transparency and accountability. Fox (2007) classifies accountability into soft and hard, based on the existence of sanctions. The former embraces the idea of answerability to rationalise the policies and the latter recognises not only answerability but also the concept of punishment. To sum up, transparency and accountability could have either the same meaning as twins, sharing attributes or no relationship at all (Fox 2007; Hood 2010).

#### **4.5 The Gap in the Literature**

In the beginning of the 21st century, the central issues of PPP research were: is the PPP a form of privatisation, how can value for money and risk transfer be realised, who regulates the PPPs, how are PPP decisions made, and overall, what are the benefits of PPPs? (Broadbent & Laughlin 1999; Hodge & Greve 2018). Ten years later, the technicalities were still discussed, but new perspectives such as socio politics and governance had started to be debated (Hodge & Greve 2018). The rationales for PPPs also altered where the adoption sought: private sector's competitive advantages in efficiency, innovation, competition, and choice; performance orientation; economies of scale; lowering tax, risk sharing; and enhancing the values of public assets (McQuaid & Scherrer 2010). The value of public assets has been in the spotlight since then which means the adoption of PPPs in PAM has been on the research agenda.

Meanwhile, the four areas discussed in this study are PAM, NPM, PPPs, and accountability. A significant volume of literature regarding the last three areas has been published in the academic world as shown in Appendix I. The studies regarding the first area are also still available even though the numbers are significantly lower than those of the other three topics. Governance with other four sub-fields namely organisational theory, ethics management, policy analysis, public budgeting and human resource management, is part of a larger field in the discipline of public administration (Shafritz & Hyde 2017). Accountability is part of the central concept of governance (Hood 1991, 1995). That taxonomy of public administration and accountability-governance relationships is not similar for all scholars. Some see public policy not as part of public administration but as a separated field of discipline (Peters & Pierre 1998).

NPM as a movement has been around for more than three decades and has been vigorously studied from many perspectives. Yet, the number of studies on the implementation of NPM in



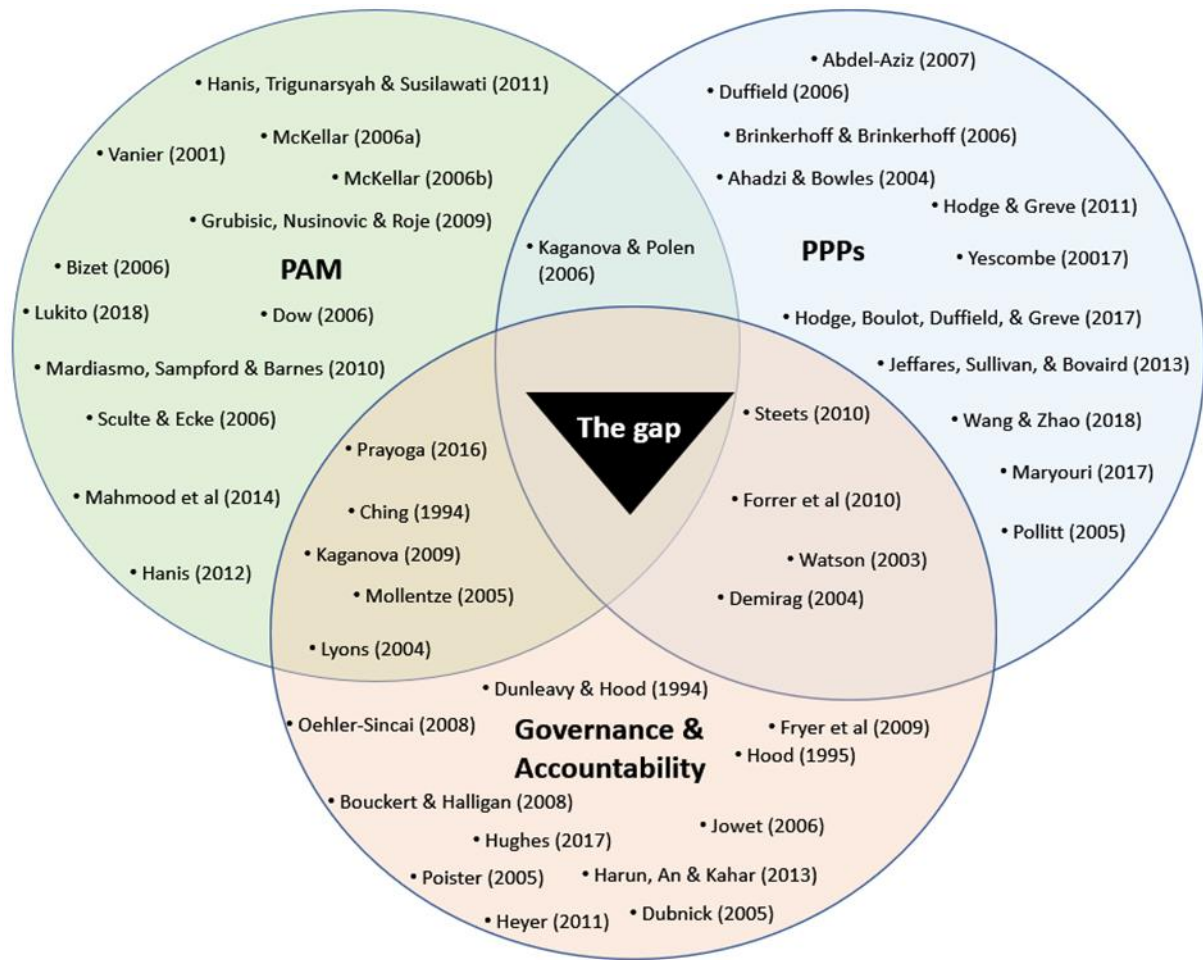
PAM is relatively small. Several studies have indicated that NPM concepts have changed how governments see public assets and conduct proper managerial actions in the best interests of the public (Conway 2006; Dow et al. 2006; Mahmood et al. 2014; McKellar 2006a). Some of the literature sheds light on how PAM changes the way assets are reported (Kaganova 2009, 2012; Roberts & Scapens 1985) as well as on how the change of asset ownership encourages asset performance measurement (Hanis, Trigunarsyah & Susilawati 2011; Mollentze 2005).

Despite that small amount of literature on PAM, the current studies have analysed certain aspects of PAM such as policies and guidelines (Mahmood et al. 2014) and frameworks and tools (Bizet 2006; Dow et al. 2006; Hanis 2012; Kaganova 2012; McKellar 2006b, 2006a; Vanier 2001). Other specific issues related to PAM are also available including space management (Yusof et al. 2012). Most of those studies analyse the PAM in developed countries and only a few studies discuss PAM in developing countries. Therefore, this thesis can contribute to the discourse regarding PAM practices in developing countries.

In the Indonesian context, only recently several PAM studies have been published but the frequency of publication is still low. Nevertheless the topics discussed are quite diverse from public asset management reform, performance measurement, good governance for both national or sub-national level, sub-national level practices, and the latest, a policy framework to mitigate the effect of climate changes (Hanis 2012; Hanis, Trigunarsyah & Susilawati 2011; Lukito 2018; Mardiasmo 2012; Mardiasmo, Barnes & Sampford 2012; Prayoga 2016). There is no study about the adoption of PPPs in addressing the problem of idle or underutilised public assets. As one of the areas this thesis studies is PPPs, the thesis will contribute to the literature of Indonesian PAM not just in quantity but also in variety as it delivers another perspective, the PPPs in the PAM context.

In regard to PPPs, one of the earliest reasons for their adoption was to address the problem of government budget limitations as stated by the UK government official when the country announced its first version of private financial initiatives in 1992 (Broadbent & Laughlin 1999). Further studies revealed the dynamic circumstances of PPP adoption. Risk transfer, value for money, lower initial cost become the new aspirations of PPP practices in many countries (Brinkerhoff & Brinkerhoff 2011; Chan et al. 2009; Greve & Hodge 2015; Grimsey & Lewis 2005; Hodge 2005; Hodge & Greve 2007; Yescombe 2007). PPPs are also adopted to utilise the governments' idle assets (Kaganova & Polen 2006).

**Figure 4.6 – Literature on PAM, PPPs, and Governance and Accountability**



Accountability in PPPs has raised concerns in several studies since the early 2000s and became more discussed after the global financial crisis triggered by the US subprime mortgage problem in 2007 (Andon 2012). What makes accountability interesting is that practitioners define accountability differently depending on their position (Demirag & Khadaroo 2008). Moreover, accountability has become one of three essential requirements in a PPP evaluation system (Demirag & Khadaroo 2008). Figure 4.6 presents some studies which are in the intersection area of the two sets namely accountability and PPPs (Demirag, Dubnick & Khadaroo 2004; Demirag & Khadaroo 2008; Forrer et al. 2010; Steets 2010; Watson 2003, 2004). The thesis gives new perspective as it studies PPPs and accountability in the context of PAM.

The course of PPP research currently is directed by six themes: seeking for the substance of partnerships, critical explanations, internationalising knowledge, post procurement events, effects of the global crisis, and impact of policy and practice (Andon 2012). This thesis applies the first and sixth themes in PPP accountability research and will deliver more meaning beyond

the financial calculation of PPP transactions and provide an explanation of the impact of PAM policies and practices.

The shaded area in Figure 4.6 indicates the gap in the literature. The area is the intersection of three research sets, cross-cutting three themes of PAM, PPPs, and governance-accountability. As can be seen, all previous studies in this thesis are located in the areas either in: the PAM, PPPs, or governance-accountability sets; or in the intersection of PAM and PPPs, PAM and governance-accountability, or PPPs and governance-accountability. Until recently, no research has been found studying the shaded area. The thesis studies the shaded area to fill the gap in the literature.

## **4.6 Conclusion**

Like PAM, PPPs are also encouraged by NPM due to its nature in applying private sector principles to public affairs. Instead of the privatisation path, PPPs offer an alternative solution to address problems of the public sector. The reasons for PPP adoption are not static and changing over time from mostly to gain the private sector's financial resources, to seeking for value for money for the government, and the transfer of risk to the party who can bear it the best. To serve the different motives of PPP adoption, there are a variety of partnership contracts to choose considering how tight the financial and organisational relationships are. PPP scenarios have been utilised to address the problem of idle or underutilised assets in many countries. A PPP gives flexibility for a government when disposing of those assets is difficult, if not impossible due to legal aspects.

Accountability has different meanings depending on the context. It can be seen as a virtue or as a mechanism. It is also limiting power and fostering answerability. Principal agent theory as one of the approaches in explaining accountability, defines accountability as a relationship where the agent in regard to its behaviour, has to answer to the principal. The latter conducts an evaluation to decide whether sanctions are appropriate. Due to its nature, accountability can be classified in different ways. It can be internal versus external accountability; bureaucratic and political, legal and professional; communal, contractual, managerial, and parliamentary. Those classifications can overlap.

No different from other PPPs, the involvement of private sector in PAM can raise accountability issues. Approaches to identify and mitigate concerns are available. One approach is by analysing seven aspects of PPPs concerning risk, cost and benefit, social and political impact, expertise,

collaboration, and performance measurement. Another is taking into consideration the stages of PPPs in identifying the accountability problems accordingly.

Having discussed the research background, the practices as well as the literature of PAM and PPPs in Chapter 1 until Chapter 4, the next chapter will discuss the methodology applied in the research.

## **Chapter 5**

### **Research Methodology**

#### **5.1 Introduction**

The first four chapters of this thesis present the research background and discuss the development of the theories and practice in PPPs and PAM. Chapter 2 describes the definition of public assets, analyses the adoption of NPM theories in PAM, and compares the implementation in several countries. That chapter also investigates the root causes of the surplus or underutilised assets problem and the policies that have been used to address this problem. PPPs are considered as one of the strategies for governments to utilise their surplus assets. The theories, development and challenges of PAM and PPPs have been discussed in Chapter 3 and Chapter 4.

This chapter lays out the methodology employed including research questions, the approach, design, paradigm, case selection, the scope and unit of analysis, method, and data analysis. The research questions arise from studies of PAM and PPP adoption in the Indonesian context. The research approach is designed to provide guidance from the very first stage, a preliminary literature review, to the final reporting stage. Then, the paradigm, how the research views and what it believes about the phenomena studied, is described. The research is developed based on the belief that there are realities that need to be interpreted, known as constructivism. Types of questions, as well as the research approach, determine the research design selected. In this research, a case study design is employed, and four case studies selected and analysed.

The scope of analysis is PPP adoption in the Indonesian PAM context. The analysis includes the comparison of Indonesian PAM before and after the bureaucratic reform. To understand the problems, the researcher collects data in the forms of ideas, views and perceptions from the policy makers and policy implementers about PAM and PPP adoption in Indonesia. The chapter describes the use of semi structured interview and document analysis in collecting the data. Finally, this chapter explains how the data is thematically analysed.

#### **5.2 Research Questions**

The thesis aims to study reasons and the process of adoption and practices of PPPs in the Indonesian PAM context. Thereby, the PAM development in Indonesia and several other countries is analysed including the impact of NPM implementation in Indonesian public-sector

reform on how the country views and manages its public real properties. The adoption of PPPs to address the problem of surplus or underutilised assets introduced accountability issues due to the involvement of private parties in the partnerships. The two issues above are addressed in two principal research questions:

1. How and why have PPPs been adopted in the Indonesian PAM context?
2. What are the accountability challenges of PPPs in Indonesia's PAM?

To address the questions, the research explores five investigative questions:

- 1) What are the development and challenges of the Indonesian PAM?
- 2) What are the rationales and challenges of PPP adoption?
- 3) What are the characteristics of PPPs to be considered in PAM?
- 4) What factors do influence accountability in PPPs?
- 5) How does transparency affect accountability?

The first three investigative questions explore the first research question and the last two explore the second research question.

### **5.3 Research Approach**

The research studies the key features and accountability of PPPs in the context of Indonesian PAM. The research depicts current views both from academics and practitioners regarding the principles and goals of managing public properties. The development of Indonesian PAM is firstly investigated to understand its success and failures in achieving the public-sector reform objectives. Then, the extent to which PPPs were adopted in Indonesian PAM is studied. The research also considers the accountability concern that arises when public and private sector collaborate and combine their resources in utilising public assets.

#### **5.3.1 Ontological and Epistemological Stances**

Before answering the research questions, it is necessary to state the research paradigm: ontology, epistemology, and methodology. This paradigm is essential in determining approaches to the theory, strategy, and method of the research. Ontology concerns how the research views the nature of knowledge and reality; epistemology questions the relationship between the knower and the known; and methodology asks how the knower finds the knowledge (Crotty 1998; Guba 1990).

There are two ontological stances namely foundationalism or objectivism and anti-foundationalism or constructivism (Bryman 2012; Marsh & Furlong 2002). The first stance believes that realities are independent of knowledge. The latter has the opposite view. Furthermore, the ontological stances indicate the epistemological positions or in other words an ontological stance determines an epistemological position. Three epistemological positions are derived from those two ontological stances: positivism, interpretivism, and realism (Bryman 2012; Marsh & Furlong 2002). The first and the second positions reflect the ontological stances of foundationalism and anti-foundationalism, respectively. Last, realism, despite being classified as foundationalism in ontological terms, believes that not all social phenomena can be directly studied but are crucial for behavioural explanations (Marsh & Furlong 2002).

The ontological stance of this research is constructivism. Being constructivist, the research follows the view that the social phenomena are constantly revised by humans through their social interactions (Bryman 2012). This research believes that the government, the private sector parties, and the society construct the phenomena of PPPs and their accountability issues which conform to the anti foundationalism or constructivism ontological term.

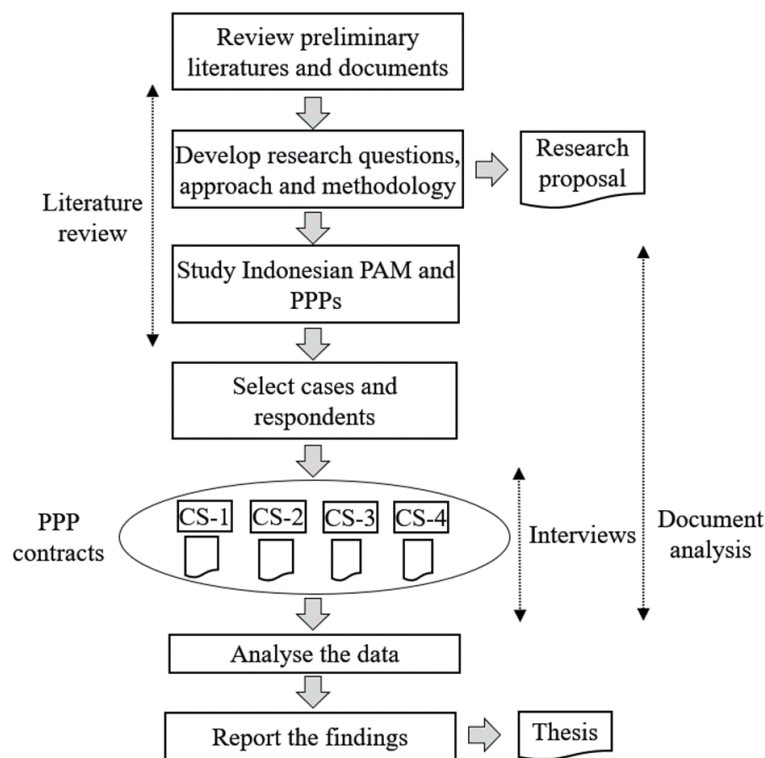
The epistemological position follows its ontology where the reality is constructed by the social actors. Therefore, the research needs to interpret the reality to unearth the underlying meaning of phenomena. The reality of PPPs in the Indonesian PAM context is constructed by government officers and their private sector counterparts through their continuing collaboration. Furthermore, the research interpretation of the reality could differ with the actors themselves. Therefore, the relationship which exists between the research object confirms the epistemology position. Hence, the nature of social construction can be drawn by the interaction between the researcher and the participants (Guba & Lincoln 1994).

Next, the ontology and epistemology stances inform how the research uncovers the knowledge behind the social phenomena. A semi structured interview is expected to satisfy the objective of the research as it could deliver the basis for subjective interpretation in gaining an in-depth understanding of the realities. Accordingly, the qualitative and inductive approaches apply in this research since the data gathered are qualitative and based on findings, a new theory is expected to emerge. The research presents a new understanding of the reality of PPPs in the Indonesian context.

### 5.3.2 Research Process

There are three main stages of the research: literature reviews, data collection, and analysis and writing up (see Figure 5.1). The purpose of the literature review is to understand the nature of the research problem, the concepts and theories that have been discussed about the topic, and to identify the research position in the topic area (Bryman 2012). The last purpose of the literature review assures that the significance and contribution of the research identified in Chapter 1 are valid and the gap of knowledge identified in Chapter 4 has been filled. While conducting the literature review; the research questions, approach and methodology were developed and confirmed.

**Figure 5.1 – Research Process**



The next stage is data collection employing case study research design and conducting document analysis and semi-structured interviews. The selection of the case studies follows the need for understanding the process of how PPPs were adopted to address the problem of PAM. Meanwhile, the selection of participants is to obtain perspectives from government, private parties, auditors, and member of parliaments. Then, the data collected were categorised accordingly.



Last, all documents and interviews were analysed and reported. The participants' views were categorised and analysed based on their thematic groups. Each case study was analysed individually and then compared to determine similarities and differences regarding patterns, ideas, and themes.

## **5.4 Research Design**

The research undertakes a multiple case study as its research design. A multiple case study enables an in-depth study of an individual unit of analysis, yet it can deliver an understanding of a greater group of a similar reality and even in a much more complex environment (Bryman 2012; Gerring 2004). Those views suit the research objectives which seek an understanding of PPP adoption in the Indonesian PAM context. By gaining comprehension through the selected case studies, the research could generalise from the case studies to the whole phenomena. The generalisation, in this case, is not statistical yet theoretical (Yin 2014).

The characteristics of a multiple case study benefit research in several circumstances (Bryman 2012; Yin 2014). Firstly, the case study design fits research that has no control over the investigated phenomena. This research studies the PPP phenomena where the reality or the interpretation of the reality is constructed by the actors. Therefore, the research could not conduct any experimental designs to examine them. Next, a multiple case study could cater for a deeper explanation of phenomena. As can be seen in the previous section, the research questions starting with 'how' and 'why' require meaningful exploration, the case study design fits this research. Then, in a case study design, sets of various data are utilised. This benefit meets the circumstances of this research, where the documents and interviews are employed to gather the data. Finally, a multiple case study is considered more advantageous due to its potential for a broader analysis. This research employs four case studies which enable it to undertake comparison analysis.

### **5.4.1 Case selection**

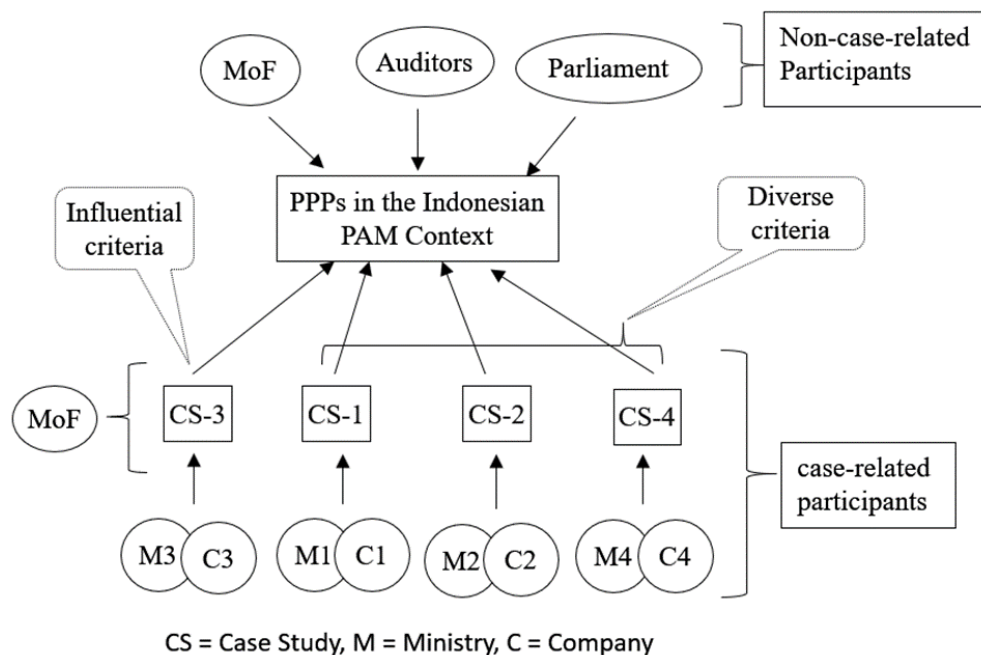
The research seeks an understanding of personal and organisational perspectives of the PPP adoption in the Indonesian context to answer two research questions: how and why PPPs are adopted and what are the accountability challenges. Those personal and organisational perspectives can be created by studying the views and experiences of the research subjects from

case studies of the PPP practice. A set of selection criteria are employed to ensure that the selected cases could provide insight into all aspects of the studied phenomena.

Purposive case selection is a widely accepted method in qualitative research (Bryman 2012; Patton 2002; Rapley 2014; Seawright & Gerring 2008). Unlike quantitative research which conducts proper randomisation in sample selection, qualitative research could not employ it due to insufficiencies of randomisation (Seawright & Gerring 2008). The rationale of the purposive techniques is robust as long as the techniques meet the objectives of case selection namely representativeness and beneficial variation on theoretical dimensions (Seawright & Gerring 2008).

Of seven techniques available (Seawright & Gerring 2008), the research utilised diverse and influential methods in selecting the case studies for the following considerations. The diverse method is believed to be more representative in depicting the underlying business of the PPP phenomena. A significant percentage of PPPs in Indonesian PAM operate in providing retail as well as office spaces. In addition, case variation is useful to conduct a comparative analysis that could lead to different findings. Likewise, the influential case is expected to deliver different facts due to its richness of information.

**Figure 5.2 – Case Study and Participant Selection**



Four cases are selected to serve the diverse and influential criteria namely CS-1, CS-2, CS-3 and CS-4. The first three cases serve the diverse criterion of case selection. CS-1 represents the utilisation of state-owned land by a private party in commercial activities providing office rent in a very strategic location of Central Jakarta. The next case showcases the reforms of the Indonesian military's business by handing over the operations of their non-military assets to a civilian business entity. The last case depicts the utilisation of idle state assets for public infrastructure development which is an expansion of an international airport. To serve the latter criteria of an influential characteristic, one complex case (CS-3) is selected due to its highest property's market value and its variation of assets and business sectors.

Figure 5.2 shows the process of case and participant selection. In each case, three parties that are directly involved in PPPs, are interviewed for the sharing of views and experiences. They are from the Ministry of Finance (MoF) as the asset manager, other ministries as the asset users, and the private party as the asset developer. For greater perspectives, the research also gathered data from auditors and one Indonesian member of parliament (MP). All projects are located in Java island which is the most region of the country in terms of demography and economic development. Three projects are in the national capital, and one in the capital of the Central Java Province (Figure 5.3).

**Figure 5.3 – Locations of the Four Case Studies**



Participants are classified into two categories based their relationship with the case studies: non-case related and case related. All participants from other ministries and the private parties have a direct relationship with the case. All participants from audit institutions and the parliament do not have a direct relationship with the case. Some participants from the MoF, some are non-case

related, and the rest are case-related. Due to their career paths or job rotations, some participants from the DGSAM have experience in the roles not only as policy implementers but also as policy makers.

*CS-1: An office building in Jakarta's prime area*

Case study CS-1 is considered to be the most complicated in terms of the problem existing between the government and the private sector partner. The state asset user called ministry M1 lacked office spaces to accommodate its growing workforce, but it failed to obtain funding to develop a new office tower next to the existing one. Located in the prime area of the national capital, ministry M1 did not find significant difficulties finding a company to develop its vacant land of around ten thousand square metres. Initiated in 1992, the project has met several obstacles, including the Indonesian economic crisis and policy changing.

During 1997 and 1998, Indonesia experienced an economic and political crisis triggered by a monetary crisis. Soeharto's regime which governed the country from 1966, fell in 1998. The USD-IDR exchange rate fluctuated significantly from only IDR2,500 for USD1 to around IDR20,000. Many companies including the partner of the project who owned liabilities denominated in USD could not afford to fulfil their obligations. These major events influenced the continuation of the project. The construction halted because the company faced severe financial difficulties. The partners have also been changed two times.

To ease the financial distress, the government and its partner agreed to change the contract denomination from USD into IDR. In addition, the new partner was given more time for continuing the construction from 2004 until 2008. In the amended contract, the partner C1 gained more flexibility in terms of bank loan access and changing its financial structure by involving additional companies. Nevertheless, the construction was halted until 2011 and it was completed in 2013.

The changing of related regulations added more complications to this case study. In 2006, the government issued a new government regulation, namely PP No. 6/2006, regarding state asset management. Under this new policy, stricter policies and procedures apply for partnerships between the government and private companies. Furthermore, they are applied to all contracts that have not been closed, including the CS-1 project. The CS-1 was still problematic as the project has not obtained definitive approval from the MoF. Under the new regulation, company C1 is obliged to allocate 10% of the office space to ministry M1 and pay more money as fixed

and variable contributions to the state account. However, company C1 declines to comply with the requirements and asks the government to respect the 2008 contract.

#### *CS-2: A shopping centre partnership*

Due to the limitation of its military budget, in Soekarno's era and even greater in Soeharto's 32-year time the military could conduct various business activities. Those activities were run directly by the military structures. As described in the previous chapter, the Ministry of Defence ranks number two in terms of its real property market value compared to all other government ministries/institutions. Almost all military business is based on the utilisation of its abundant surplus assets.

A military institution had a large parcel of land in South Jakarta and there were still significant vacant areas. In the 1990s, South Jakarta did not have enough shopping centres to support its growing and vibrant population. On one hand, the government had a large area of vacant land, on the other hand, the private sector partner had resources to develop the land in order to meet the demand for a new shopping centre in the region.

According to the contract, company C2 invested almost 80 billion rupiahs. It was a very large amount of money, especially when the rupiah still had a good exchange rate with the US dollar. That amount of money was used to construct a 42,904 M<sup>2</sup> building, on an area of 15,000 M<sup>2</sup>. Currently, the shopping centre provides commercial areas for more than three hundred business entities that employ hundreds of job seekers and deliver services to thousands of people living in South Jakarta.

An agreement was reached where the private sector (C2) not only built the shopping centre, but also constructed several buildings for the use of the institution (M2). Company c2 was given a 30-year contract to utilise the building and then hand back both the land and the building to ministry M2. In addition, company C2 was also obliged to settle the legal aspect of the property ownership including the land certificate from the National Land Agency and the building permit from the local government.

#### *CS-3: The largest sporting complex in the country*

The sporting complex known as the Gelora Bung Karno (GBK) was inaugurated in 1962 when the Indonesian government in the Soekarno era hosted the fourth Asian Games. To provide the sporting venues for that international event, the government through its foundation acquired lands

and constructed facilities for all sports contested. At that time, the foundation managed to take over almost three million square metres of land from the existing inhabitants. In addition to the sporting venues, the government also constructed several prestigious buildings to support the event as well as to show successful post-colonial nation building to the international community.

In the beginning, the constructions were seen as white elephant projects, due to the circumstances of the Indonesian economic difficulties after decades of independence wars against the Dutch, and several armed rebellions. Hyperinflation, poverty, and ideological conflicts among political parties led to the end of Soekarno' regime in 1967 replaced by Soeharto who was appointed by the people's consultative assembly. Despite that, Soekarno's ambitious projects were a blessing in disguise for Soeharto's economy focusing policies. The areas of the GBK had an increasing role because of its strategic location in Jakarta's growing economy. Therefore, in 1984 the government formed a special asset management unit to operate the complex. The legal status of this unit has changed many times in accordance with current government regulations and policies. It is now a designated public service agency known as the agency PSA3.

The GBK has played a significant role in Indonesian national sports development. In 2018, the GBK with the Jakabaring Sports Centre in South Sumatra Province became the venues of the 18<sup>th</sup> Asian Games. Besides that, for decades the main stadium of the GBK has seen many national political and cultural mass gatherings because it has the capacity to accommodate hundreds of thousands of people. For its historical contribution, the land and some buildings in the GBK have been named by a presidential decree as being of Indonesian national heritage since 2004 (2004).

**Table 5.1 – Asset Allocation in CS-3 Sporting Complex**

No.	Users	Areas (000 M <sup>2</sup> )	Percentages
A.	Government institutions	604	21.65%
B.	Managed by PSA3 and private sector:		
1.	Under BOT schemes	839	30.08%
2.	Under joint operation schemes	70	2.51%
3.	Under agreements with sport associations	91	3.27%
4.	Managed directly by PSA3	1,013	36.57%

Source: GBK Supervisory Board (2016)

The vast areas of the GBK, were developed further where some parts are operated by involving private sector and others are used solely for government activities including parliament buildings, three ministry headquarters, a public television station, a school, a local government office and a

local hospital. Table 5.1 presents the square metres and their percentages of lands occupied by those institutions as well as by the GBK authority. The total area of GBK is around 2.8 million square metres, 80% of it managed by the PSA3 either solely (37%) or involving other parties (36%). The table shows that most of the GBK areas especially under direct management of the agency PSA3 are designated for green regions where no or very limited buildings are allowed. Furthermore, the map of the GBK can be seen in Appendix J.

Agency PSA3 was specially established to manage the GBK accounts to ministry M3. According to the regulation of public service agencies, ministry M3 has the authority to supervise the activity of the agency PSA3 (GoI 2005a). As a public service agency, the agency PSA3 has a vision:

to manage the sporting complex based on the international standards while maintaining its national heritage status in a professional, transparent, and accountable way for the greatest benefit of the country and the society' (GBK Supervisory Board 2016).

As can be seen from its vision, agency PSA3's businesses are not profit oriented especially for the GBK areas which are managed by the sport associations and directly the BLU itself. However, for the areas operated under BOT and joint operation schemes, profit and sustainability are the main consideration of the agency PSA3 in selecting appropriate partners from the private sector (P14).

The nature of the GBK in Case Study 3 (CS-3) is different to other case studies. In the other case studies, the PPP consists of one contract between the related ministry and the private company. In CS-3, there is no direct involvement of the ministry in the contracts with the private sector, the BLU plays a role as the government vehicle in contracting and dealing with the partners (participant P32). The business model of the agency PSA3 in GBK is unique, no other ministry has a special vehicle to manage their real properties. Besides the agency PSA3, ministry M3 has another agency to manage another special complex in central Jakarta.

In recent financial statements, around 40% of the agency PSA3 revenues come from PPP projects. Sixteen companies have PPP contracts with the agency PSA3, ten under BOT schemes, three under joint operation schemes, and three under land use rights. The agency PSA3 also gains revenues from sporting venues rents, land rents, advertising and parking. With total assets of almost 50 trillion rupiahs, its 200 billion net income is considered low. Nevertheless, not all assets are under the management of the agency PSA3 and most of them cannot be commercialised to earn income streams (P33).

#### *CS-4: A partnership that links PAM and infrastructure development*

A former military airport, the Ahmad Yani International airport (CS-4) was established in 1966. It has served civilian flights since its establishment. In 1995 due to the increase in economic activities in the region, a state-owned airport operator company was assigned to manage the airport. About fourteen years ago, the airport started providing services for international flights.

The airport is located in Semarang, the capital city of Central Java Province which is inhabited by thirty-five million people. Its latest GDP and economic growth were 894 trillion rupiahs and 5.27% respectively in 2017. The only public airport in the province, CS-4, before the development project could only accommodate fewer than one million passengers per year. The facility of the airport prior to the expansion had a less than 7,000 square metre terminal and 29,000 square metre apron and taxiway. It could only serve six medium aircraft as large as a Boeing 737 and two ATRs. The airport expansion was essential to support the economic activities of the third most populous province in the country.

The one trillion rupiah project managed to significantly increase the airport's capacity. The terminal is six times larger so it can be used by four million people a year. The airport can also serve up to twelve wide body aircraft at a time. Even though there are two other international airports in close proximity to the CS-4 airport, the need for the expansion of the CS-4 airport was still high taking into account the huge population of the province and its economic activities.

The project is a PPP of the central government, ministry M4 as the landowner and the company as the airport operator. All investment funds of 1.15 trillion rupiahs came from the company and the central government provided 89 hectares of land for the expansion. The market value of that land was around 220 billion rupiahs at the beginning of the project. The amount of each party's contribution to the project determines the profit-sharing percentages.

The contractual agreement between the two parties includes the scheme of the partnership, the liabilities, and rights, as well as the contract period. The contract period is thirty years, and the company at the beginning of the period, constructed the airport expansion. There are two types of payment that need to be periodically transferred by the company. First, the fixed contribution, the contract obliges the company to pay around 1.3 billion rupiah annually regardless of the company's financial conditions. The contribution increases by 4.14% per year to adjust to the property's growth in value. In addition to that payment obligation, every year, the company is required to share around 12% of its net cash flows with the government. This profit sharing



considers the company's financial situation in terms of its operating and investing activities. At the end of the contract period, the buildings and all its facilities will be owned by the government.

#### **5.4.2 Scope and unit of analysis**

The research explores the PPP in the public asset management context after the enactment of the 2004 State Treasury Law. However, there is a comparison of conditions prior to and after the law being enforced to reveal the significant changes. The PPP process is the unit of analysis of this research, in which the reasons for and stages of PPPs are examined to consider the accountability issues that might arise. The problems of PPPs in PAM could be identified during the initiation, set up, operation and termination. The problems, as well as their sources, are formulated based on the perceptions and experiences of government officers and private parties involved in PPPs both in policy making and in policy implementation.

#### **5.4.3 Research method**

The research focuses on how and why PPPs are adopted in the Indonesian PAM context. For this reason, both primary and secondary data were collected from the parties involved in the phenomena. The primary data were obtained through semi-structured interviews with the government officers and their private counterparts, auditors, and a member of parliament. Prior to conducting the interviews, the research gathered data from official documents issued by the government, the private parties, and mainstream media.

##### *Document Analysis*

Analysing documentary materials is expected to deliver contextual data in the research field which can be developed more in arranging questions for the next steps of research (Bowen 2009). Document analysis offers benefits for the research process: it is efficient in the collecting process as it is already available in many institutions; it can be accessed at any time; and as written evidence, it has a non-reactive attribute (Bowen 2009; Creswell 2014).

However, there are some disadvantageous characteristics of document analysis (Bowen 2009) that have to be taken into consideration. The documents collected could be vague and not sufficient enough to be deeply analysed. The presence of confidentiality becomes another issue in gathering relevant information. Then, the caution of government officers may prevent access to crucial evidence. Last but not least, a partial document selection process could lead to biased

selectivity (Bowen 2009). Considering the confidential nature of the documents, the participants were given a guarantee that the documents were to be used for research purposes only and their confidentiality if required, was guaranteed.

The documents to be analysed include but are not limited to government policies and regulations, project specific information such as the PPP proposals, correspondences, reports and publicly available materials from media coverage regarding the government policies and their implementation. The MoF is the main source of documents gathered in this research. The documents obtained are in the forms of regulations and policies at different levels including law, government law, ministerial laws; PPP proposals from other ministries; and PPP contractual agreements. Some documents are confidential, and not all documents are accessible. Yet, that obstacle is addressed by seeking important information through semi structured interviews with the participants. Several participants gave access to critical information by showing confidential information and allowing recording as well as note taking of that information.

The MoF is an important resource in these phenomena because it is the focal point of PPPs in the Indonesian context. All stages of PPPs require approvals of the MoF or at least need to be reported to the MoF. In addition to that, the MoF holds the highest authority in the Indonesian PAM where all public-asset-related laws issued by the Indonesian central government, were discussed, and approved. As a result, the research conducted more interviews with MoF officers from different level positions and offices than from other institutions.

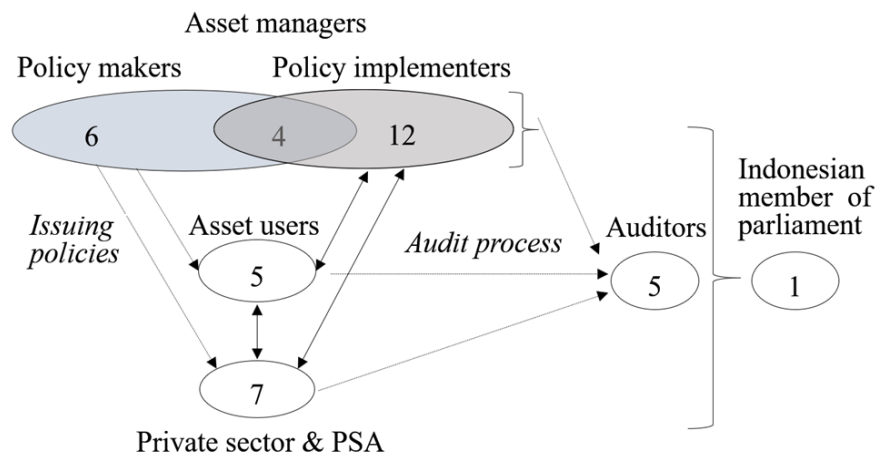
### *Semi Structured Interviews*

The research conducted semi structured interviews to gather relevant information from the participants. Unlike the structured interview, the semi structured enables the researcher to explore the topic and the participants' view within a predefined framework. This type of interview helps the researcher to target the topic while asking the participants directly, yet it is still insightful and has the flexibility to capture subjective meanings regarding personal views and experiences from the participants (Seidman 2013; Yin 2014).

The research selected the participants purposefully. In qualitative research, statistical random sampling cannot be employed in selecting participants. The participants selection criteria, recruitment method, and practicalities are prerequisites for determining the participants (Galletta 2012). The research employs formulated selection criteria that ensure that perspectives and experience are representative. Participants are selected from each institution involved in the

phenomena. Next, in approaching the participants to be recruited, an invitation letter is sent to every potential participant establishing their willingness to participate. Once a participant has been interviewed, she or he is then asked to recommend other potential persons to be approached. Cost and time constraints limit the number of participants in the research, but the current number suffices all criteria.

**Figure 5.4 – The Participants**



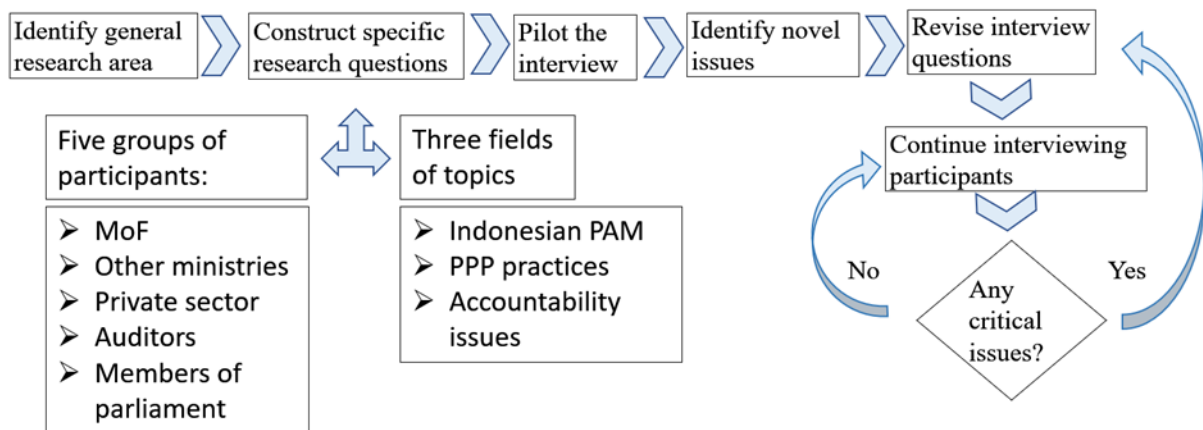
Forty participants in this research come from five institutions or parties where more than a half of them are from the MoF-DGSAM. Furthermore, there are five high ranking officers from four ministries/ministerial-level institutions, seven from private sector and public service agencies (PSA), five auditors and one member of parliament. Figure 5.4 depicts the participants and their interaction in the Indonesian PAM context. The policy makers of the DGSAM issue policies guiding the DGSAM itself, asset users, private parties and auditors. Meanwhile, in operational activities for approval and monitoring, the policy implementers of the DGSAM collaborate with the asset users in all stages of PPPs, and to a much lesser extent, they also have a relationship with the private parties.

### *Interview Questions*

The interview questions were constructed based on the need for the views and experiences of participants to fulfil the objective of the research. For this purpose, the questions could be placed into three sections: the introduction, the middle, and the concluding session (Galletta 2012). The research established a three-section interview protocol. In the first section, it creates a comfortable environment for the participants before it shifts to ask broader questions. Once broad answers were given by the participants, then, it became the basis for asking for much more

detailed information or clarification of unclear statements. In this section, interesting answers were explored further, and once the participants got the encouraging nuance, they were asked to compare some facts or views regarding the phenomena. In the closing section, some contradictions were clarified with the participants. Their explanations could lead to important revelations. The interviews were closed by thanking the participants and asking their consent for possible clarification in the future.

**Figure 5.5 – Formulating Interview Questions**



Five different sets of questions are provided for five categories of participants accordingly (see Appendix E). Though the questions are different, the structures adapted from a general guidance (Bryman 2012), are similar. While formulating the interview questions, there was an ongoing revision process (see Figure 5.5). Once critical issues such as misleading questions have been found, the interview questions were revised.

## 5.5 Data Analysis

Data analysis is one of the most crucial stages, or even the central one, in qualitative research. At this phase, the interpretation of data collected is materialised. ‘Qualitative data analysis is the classification and interpretation of linguistic (or visual) material to make statements about implicit and explicit dimensions and structures of meaning-making in the material and what is represented in it’ (Flick 2014, p. 5).

Based on the aim, there are two main approaches to the analysis in a continuum of strategies (Flick 2014). First, the coding and classification approach is to simplify and reduce the amount of data from an enormous variety of different perspectives (Bryman 2012). In contrast, the second approach expands the material by adding explanation and analysis of the novel information. The

research follows the first approach, where the original text as well as verbatim transcriptions of the interview, were coded, classified, and analysed based on their thematic groups.

Findings come from views and experience shared by participants. The similarities, differences, contradictions, and the uniqueness of ideas emerge from data analysis. The digital recordings are transcribed and processed using NVivo. The application helps the data analysis by; organising and keeping track of all digitalised data; providing fast access and answers to queries; presenting views and cases in the form of graphical images; and rendering the comprehensive reports of the established qualitative database (Bazeley & Jackson 2013).

The research employs a mixed method design as both descriptive and thematic data analysis are used to extract information from the case studies. The use of qualitative and quantitative data analysis is considered as a mixed method (Bryman 2012; Creswell 2014), as is also the application of both qualitative approaches yet different methods can be assumed as a mixed method (Morse 2010). The objective of descriptive data analysis is to explain a phenomenon and its characteristics to obtain a deeper understanding of the participants' experiences (Nassaji 2015).

Thematic analysis is employed because of the flexibility with which it can be applied across a range of theoretical and epistemological approaches. Thematic analysis is able to render complicated data in detail (Braun & Clarke 2006). The collected data set is identified, analysed and reported in the form of themes. The themes emerge, then are discussed through the lens of current literature on NPM, PAM, PPPs, and accountability. There are two types of data collected, namely documents and views of the participants. The latter are gathered from interviews with the participants. To sum up, thematic analysis provides guidance in coding vague statements and linking them to larger groups of themes systematically and as a result enables the research to exploit both inductive and deductive methods.

The participants' views regarding PAM and PPP adoption are deeply influenced by their lived experiences, the way they interact with PAM problems, their interest and the benefits they could derive from the PPP adoptions. Individuals could have different perceptions of the same issues even though they come from the same institutions. As individuals' lived experiences shape the way they frame and react to issues. Hence, interpretive policy research is required to facilitate those framings and the reactions of its participants in order to withdraw, analyse, and discuss the participants' perspectives (Yanow 2007).

A set of criteria is adopted to define which categories can be classified as themes (Bryman 2012). Firstly, the categories emerge from the data collected through the process of identification, classification, and validation. Next, there are relationships between those emerging categories with the research questions or at least with the focus. Thirdly, codes which are identified from the transcript or documents, construct those categories. Last, the categories lay the basis for a theoretical comprehension of the data that in the end, delivers a contribution to the knowledge in the research area. In technical terms, the research looks for eight characteristics from the data before they are classified as themes (Bryman 2012). Those characteristics include recurring topics, unfamiliar expressions, metaphors and analogies, topic transition, resemblances and variations among the data, causality relationships, missing information, and finally, last materials related to the theory.

## **5.6 Research Quality**

A social research design is obliged to meet the criteria of reliability, replicability, and validity (Bryman 2012). In qualitative research, replicability is assumed to be part of reliability due to the closeness of their attributes (Golafshani 2003). In another view, validity is considered as the only single criterion that is sufficient to describe qualitative research. This is because the validity is non-existent without reliability (Lincoln & Guba 1985). The reliability of the research design could be determined by testing it using the same procedure to see whether the research will deliver the same answer regardless of the researchers (Bryman 2012). Next, replicability in qualitative research is not as important as in quantitative research (Bryman 2012). Finally, instead of the validity concept, terminologies namely quality, rigour, and trustworthiness are better to describe validity (Golafshani 2003). This research adopts the view that validity is the prime quality of qualitative research.

There are several data validation methods, two of them are utilisation of multiple sources of evidence and minimisation of bias (Kapoor 2004; Yin 2014). Triangulation is the rationale behind using multiple sources. From four types of triangulation: data, investigator, theoretical, and methodological (Patton 2002), the research applies the first type of triangulation. The research gathered data from multiple sources including document analysis and semi-structured interviews, which enables it to conduct triangulation. The data from the interviews triangulate the results of the document analysis. In addition to that, there are five different parties of participants: MoF, other ministries, private parties, auditors, and a member of parliament. The

response from one participant could be used to reveal any inconsistencies from other participants either from the same or a different institution.

Unlike data inconsistencies that come from the participants, the data bias could arise both from the researcher or the participants (Kapoor 2004). To minimise the bias triggered by the researcher's subjectivity, the researcher adheres to some interviewing warnings (Fontana & Frey 2000) by not giving any suggestions, agreement or disagreement, or interpretation to both the interview questions or interviewee's responses. Furthermore, the researcher is aware of the likelihood that the participants self-justify while they share experiences and views about difficulties in this PPP phenomena. A strategy that requires a researcher to not provide any comparative information regarding questions to participants (Ang & Straub 1998), is adopted. For example, while interviewing a participant from a ministry about the challenges they faced and actions they undertook, the researcher did not provide them with information about similar events in other ministries.





## **Chapter 6**

### **The Challenges of Indonesian PAM**

#### **6.1 Introduction**

This chapter is the first of three chapters that discuss the findings of the thesis. In this chapter, the experience of Indonesian PAM from the perspectives of all actors is explored, analysed and summarised. Those perspectives indicate an understanding of the development and key challenges of Indonesian PAM which is built on the experiences of the participants from the MoF, the ministries/institutions, auditors both from government internal institutions and from the BPK, and a member of parliament (MP) from the House of Representatives. The chapter investigates and analyses the views of participants as well as the regulations and policies issued.

The purpose of this chapter is to provide the foundation required in understanding the background to and reasons for the adoption of PPPs in the Indonesian PAM context. Specifically, this chapter aims to answer the first research sub questions of ‘What are the development and challenges of the Indonesian PAM?’ In answering the question, the chapter lays out the development of Indonesian PAM and analyses current practices as well as the key challenges. The participants share their different perspectives regarding the Indonesian PAM development. Accordingly, they also have different concerns about the challenges of the current PAM practices. In addition, the problems of human resources, institutional authorities and the relationship between the government and the parliament have complicated the situation for many years.

The chapter focuses on the key challenges of the Indonesian PAM. The concluding discussion addresses the progress in addressing these challenges. This chapter also provides a basis for understanding the PPP analysis and discussion in the following two chapters.

#### **6.2 Key Challenges in Current Indonesian PAM**

As described in Chapter 2, the Indonesian PAM reform has started since 2004. Then under a presidential decree (President of Indonesia 2007), a state arrangement program was kicked off, which was viewed by many PAM stakeholders as the second milestone in the Indonesian PAM reform. The state arrangement program was conducted in three stages: state asset registration, valuation, and then legal certification for state lands. The program was massive due to the involvement of all ministries and their entities nationwide. As a result, the actors of PAM across

institutions were deeply influenced in many ways as to how they see what a PAM should be. The results of semi-structured interviews confirm that a variety of perspectives are expressed by the participants. Those perspectives come from their backgrounds and long-term experiences in managing public assets in their institutions.

This section presents an overall view of emerging themes coming out of the participants semi-structured interviews. Table 6.1 presents six emerging themes from the responses of the participants in regard to the questions about the nature and development of the PAM in Indonesia. Forty participants of five different roles in the Indonesian PAM (Appendix E) explained their experiences in semi structured interviews where twenty-five issues in the form of questions (Appendix F) were probed. Assisted by the NVivo software (Bazeley & Jackson 2013), the information of those interviews was then analysed both descriptively and thematically to gain understanding and discover relationships between them. As a result, there are six themes that emerge from the perspectives of the participants.

**Table 6.1 – Emerging Themes from Participants’ Responses**

<b>Emerging Themes</b>	<b>Asset Managers</b>	<b>Asset Users</b>	<b>Auditors</b>	<b>Private sector</b>	<b>Members of parliament</b>
1. Asset Registry	-	✓	✓	-	-
2. Asset Security	✓	✓	✓	-	-
3. Asset Utilisation	✓	-	✓	-	-
4. PAM regulations and policies	✓	-	-	✓	✓
5. Asset performance measurement	✓	-	-	-	-
6. Asset management skills	✓	-	-	-	-

The six emerging themes concern the asset registry, asset security, asset utilisation, regulation and policy, asset performance and asset management skills or human resources. Asset manager participants mention all those themes as current challenges for Indonesian PAM except the asset registry. This group of participants are the DGSAM officers. Meanwhile the asset user participants raise their concerns regarding the asset registry and asset security. Unlike the asset managers, the auditor participants, they do not pay as much attention to the issues of policies, regulations, and asset performance. Then as outsiders from the perspective of government officers, the private actors focus on issues that affect the way they run business with the government which includes PAM regulations and policies. Likewise, but for a different reason, the MP also spotlights how the MoF regulates asset management affairs. This is because of his role as the government counterpart in discussing the high level of regulation.

Officers from the MoF/DGSAM who represent more than half of the participants pay considerable attention to almost all themes revealed by the interviews. The issue of idle and underutilised assets is most frequently mentioned by this group as almost 80% of participants raised it. This is due to the current policy of the MoF who states that the DGSAM is becoming one of the revenue centres to support the national government budget (mentioned by five participants). The view of these participants is confirmed as the MoD states 'One of the missions of the DGSAM is to effectively manage state assets for state revenue optimisation and spending efficiency' (MoF 2014b). Meanwhile, their attention to the issue of asset security is seen as their duty as assigned by the presidential decree in the state asset arrangement program (President of Indonesia 2007). The decree states that the program includes safeguarding state assets and state land certification. The next issue raised is dealing with regulations and policies. Six participants believe that the current policy regarding the division of authority between the state asset manager and the state asset users is not appropriate. The issue least mentioned by this group concerns asset reporting and staff's skills, respectively.

The asset registry and asset security are the main concerns of the asset users of other ministries. Three participants from three different ministries explained how difficult it was to obtain the unqualified opinion from the BPK auditors regarding the fixed asset section of their institutions' financial statement. Their concerns about the asset registry and asset security are confirmed by a participant from the BPK. The auditor of the Supreme Audit Board also expresses his concern regarding asset security and the asset registry. Those two themes are two of five assertions in conducting a general audit on a financial statement. Besides those two issues, auditors from internal government bodies pay more attention to idle assets, especially with regard to the utilisation aspect. While auditors of the BPK conduct an annual general audit, the internal auditors perform different types of audit depending on their thematic audit focus.

As mentioned, for the private sector, their ultimate and only concern is the assurance of their business with the government. Unsurprisingly, they monitor a particular policy regarding asset utilisation and investigate what kind of impacts it will have on the partnership between them and the government.

A wider view is expressed by the MP. Assets could be used as a basis for the government to collect more funds from the public. The issuance of government Sukuk or Islamic bonds worth billions of rupiahs is one of the benefits which arises from state asset utilisation. In Islamic bond issuance, an investor holds an undivided share of tangible assets that become the base of those

securities. The MP also expresses the importance of the DGSAM's authority and the relationship between the government and the parliament. The tie is important in the decision-making process especially in discussing bills of PAM. The following sections of this chapter will analyse the seven themes and how they have been discussed by the literature.

### **6.2.1 Unregistered Assets and Uncertified Land**

In the early phase of the interviews, several participants argued that there were still problems with the asset registry and security. One of the participants mentioned that asset registration and security are the main problems of the Indonesian PAM. Considering her background as a high-ranking officer in a ministry with offices available in every district in Indonesia, the answer is justified. She explains:

Actually, in ministry M4, the main problem is closely related to asset security. As the nature of our assets, they are spread across the nation and some in remote areas. Many were not recorded, and some are illegally occupied or taken over by other parties (P27).

Prior to the state asset arrangement program, thousands of fixed assets were not properly recorded or were even unrecorded in the government accounting system as published by a national newspaper agency (Lingga 2018; Rachmawati 2014). An asset registry is the initial stage when the attributes of an asset are entered into an accounting system. In many ministries, especially the ones with offices nationwide, there were a large number of unregistered assets. This problem was one of the main obstacles preventing their financial statements getting clear opinions from the auditor.

In conducting a general audit on the government financial statement, participant P35 of the BPK explains that there are five audit assertions regarding the appropriateness of material elements of the financial statement: existence or occurrence, completeness, rights and obligation, valuation or allocation, and the last, presentation and disclosure. The understanding of those five audit assertions has already been discussed in Chapter 3, Literature Review. The failure to register all fixed assets by the government has failed the assertion of completeness and in the end, if the amount is material, it will influence the type of audit opinion on the financial statement.

Based on document analysis, the problems of fixed assets found by the BPK in the 2017 central government financial statement persist including an incorrect asset registry, the unknown existence of assets, no legal asset ownership, illegally occupied assets, halted construction in progress, and idle or underutilised assets (see Table 6.4) (BPK 2018). The BPK report mentions

the weaknesses of the Indonesian PAM regarding asset security: legal ownership and illegal occupation of government properties.

**Table 6.2 – The Problems of Fixed Asset Management – Year 2017**

No.	Findings	Worth (IDR billion)	Number of Ministries/Institutions
1.	Incorrect asset registration	240	26
2.	Unknown asset existence	1,636	33
3.	Unsupported by legal ownership	1,366	20
4.	Illegal occupation or utilisation by other parties	6,485	20
5.	Halted construction in progress	444	8
6.	Undisposed damaged assets	103	21
7.	Undefined usage status	17,555	2
8.	Unutilised asset	41	6
9.	Miscellaneous problems	3,064	47

Source: BPK (2018)

In the Ministry of Defence, for instance, the BPK's view on that ministry's financial statement shows that in the last five years, only in 2013, did their financial statement obtain an unqualified opinion (BPK 2018). The result of asset revaluation in this ministry increased its fixed asset value by more than 300 trillion rupiahs in 2017. It is one of the top three ranking ministries regarding asset value increases. According to a participant of MoF (P08), the state asset arrangement program has discovered thousands of unregistered assets mostly in large ministries. In total there is an increase of almost two quadrillion rupiahs of asset value as the result of a state asset arrangement program. Table 6.3 shows the top five ministries that have the largest land values based on the central government financial statement year 2017.

**Table 6.3 – Five Ministries with Highest Real Property Values in 2017**

No.	Ministries	(IDR trillion)			
		Land	Buildings	Revaluation	Total
1.	Ministry of Defence	297	43	316	656
2.	Ministry of Public Works	292	18	419	729
3.	Ministry of State Secretariat	87	2	284	373
4.	Ministry of Transportation	76	20	95	191
5.	Ministry of Research and Higher Education	59	23	190	272

Source: GoI (2018a)

The MP agrees with the statement that the Indonesian PAM has a problem dealing with asset security. He is concerned about the legal aspect of state asset ownership especially the assets that were acquired as the result of the Indonesian monetary crisis in 1998. At that time, a large number of assets from the banking industry were confiscated by the government. However, the government has still not been able to establish strong legal ownership of those assets, and this resembles a time bomb that could blow up in the future with possible legal disputes with other parties. In 2004, after being dissolved, the government received assets worth IDR172 trillion (AUD17.2 billion), yet until 2017 the government has only recovered IDR7.7 trillion (AUD.77 billion) from selling those assets (Kurniawan 2017; Laucereno 2017).

Unlike the state asset users, the participants of the state asset managers or those from the DGSAM have not paid much attention to the state asset registry. None of them mentions the registry problem in answering the question of the current challenges of the Indonesian PAM. However, some of them mention the public asset administration which is a much larger concept than the asset registry. The definition of the administration concept stated by participants of the DGSAM refers to the government regulation which is a series of activities including bookkeeping, inventory (physical checking), and reporting. In fact, participant P16 clearly stated that the asset registry problem had been overcome. The current problems are mostly dealing with asset productivity, he continues.

Despite their disregard for the asset registry problem, eight DGSAM participants recognise the problem of asset security. In this case, they share this view with the participants from other ministries. Furthermore, one participant (P17) from the DGSAM regional office, gives a deeper understanding of asset security. He says, ‘There are three aspects to asset security: administrative, physical, and legal’. Administrative security means the existence of an asset is properly recorded in the accounting system. Next, physical security means the asset is safeguarded from illegal occupation as well as obsolescence. And legal security represents the existence of the legal ownership of the assets. These three types of asset security are already mentioned in the central government regulation (GoI 2014).

### **6.2.2 Idle and Underutilised Assets**

As mentioned above, most participants from the DGSAM prioritise state asset utilisation in the Indonesian PAM. The understanding of those participants departs from their experiences regarding the state asset arrangement program where the first activity is state asset registration.

Two participants (P05 and P16) explicitly say that the problem of the asset registry is not significant anymore. Participant P16 says:

Asset management cycle starts from the asset registry, use and ends in the asset disposal. The ultimate problem [of asset management] is how [efficient] we use the asset, how to evaluate whether an asset is productive or not, efficient or not. That is the point. Mostly on idle assets.

Participant P05 adds:

Are the assets provided [for those the institutions] adequate, oversupplied or even undersupplied? The cause of this problem because the DGSAM has not established a system to measure whether a ministry/institution has enough assets or not, [DGSAM] has not a tool to identify whether the asset... is productive or not. Now, the [the need for] the measurement of asset performance becomes urgent.

Table 6.4. shows that in 2017, the BPK found only 41 billion rupiahs of unutilised assets. This amount is insignificant compared to the quadrillions of total fixed assets stated in the central government financial statement. Of those five items of unutilised assets, only one is a real property asset, another one is a unit of government's officer housing. This finding is just the tip of an iceberg because it only presents the assets that are totally unused. The definition of idle assets used by the BPK is different from that used by the MoF. Based on MoF regulation, an asset can be categorised as idle when it meets one of the criteria: unused, or used but not in line with the duties and function of the ministry/institution which controls it (MoF 2016b).

**Table 6.4 – List of Unused Assets – Year 2017**

No.	Ministries/Institutions	Amount (IDR million)	Explanations
1.	Ministry of Transportation	16,339	Machinery and equipment
2.	Ministry of Health	22,626	Machinery and equipment
3.	Agency for the Assessment and Application of Technology	NA	An aircraft engine in Denmark
4.	Agency for Geospatial Information	1.029	A government house
5.	State Intelligence Agency	1,400	A computer software

Source: BPK (2018)

Besides the problem of the absence of asset performance measurement, the DGSAM currently is still striving to establish a reliable information system. Comprehensive data about the amount of funding the government receives from asset utilisation could not yet be found within the institution. The participant P06 explains that the supervision and control activities of the DGSAM on the asset utilisation operation in other ministries are weak. Once the asset utilisation proposal has been approved, proper supervision is rarely conducted. In order to obtain information about

the revenue from the asset utilisation, the participant needs to collect information from the Directorate-General of Treasury.

In 2017, the government received a half trillion rupiahs from asset utilisation. The amount almost doubled the 2013 figure (Table 6.5). Indonesia used to rely on revenues from the oil and gas sector. Early in Soeharto's era when the world experienced an oil boom, more than half of the state's revenue came from this sector (Putrohari 2013). Then until recently, tax revenue has been the major source in government budgets. In the 2018 budget, tax revenue contributed 85% of the total central government budget (GoI 2018a). In spite of that, the MoF has encouraged its echelon I units to stimulate other ministries to quarry other types of revenues from their own domain and asset utilisation is seen to be the only source that almost every ministry can exploit (P02).

**Table 6.5 – Government Non-Tax Revenues Year 2013 – 2017**

No.	Non Tax Revenues	(IDR billion)				
		2017	2016	2015	2014	2013
1.	Natural Resources	111,791	64,902	100,972	240,848	226,406
2.	Long term investment	43,904	37,133	37,644	40,314	34,026
3.	From public service agencies	47,655	42,320	35,315	29,681	24,648
4.	Others:	108,144	117,995	81,697	87,747	69,672
	a. Property management	703	485	468	430	481
	1) Asset disposal	199	141	97	136	189
	2) Asset utilisation	503	343	370	293	291
	b. Miscellaneous	107,441	117,511	81,230	87,317	69,191
	Total	311,494	262,350	255,628	398,591	354,752

Source: Directorate-General of Treasury (2018)

Meanwhile, Table 6.6 presents the top three contributors to state utilisation revenues namely the Ministry of Defence, the National Police, and the Ministry of Public Works and Housing which collected 91, 41, and 32 billion rupiahs, respectively. However, the contribution is insignificant if it is compared with the value of their real property assets.

**Table 6.6 – Assets Utilisation Revenues 2016-2017**

No.	Ministries/Institutions	(IDR billion)		
		2016	Ministries/Institutions	2017
1.	Ministry of Defence	91.07	Ministry of Defence	121.51
2.	National Police	41.45	National Police	50.24
3.	Ministry of Forestry & Environment	31.80	Ministry of Public Works & Housing	39.39



No.	Ministries/Institutions	2016	Ministries/Institutions	2017
4.	Ministry of Public Works & Housing	24.24	Ministry of Finance	38.77
5.	Ministry of Finance	20.54	Ministry of Transportation	34.84
6.	Others	134.34	Others	218.44
	Total	343.44	Total	503.19

Source: Directorate-General of Treasury (2018)

To address the problem of the idle asset, the MoF has issued a ministerial regulation (MoF 2016b) that defines the criteria of idle assets and gives authority to the MoF to issue a statement that an asset is classified as idle and take control over it from other ministries. To support its authority, the MoF is enabled to deliver sanctions to other ministries/institutions who fail to render their idle assets to the MoF. Despite the power of the MoF to take over the idle assets and to punish the breaching ministries/institutions, this regulation is still ineffective in increasing the asset efficiency by reducing the number of idle assets.

The MoF policy regarding idle assets has several fundamental weaknesses according to the views of some participants (P22, P39). Firstly, the definition of an idle asset only targets unused assets and assets that are used but not in line with the duties and functions of the ministries/institutions. It means that only assets that are totally unutilised are included but it excludes the under-utilised assets which are partially used (P39). Moreover, to target the assets used outside their duties and functions is also not easy, if not impossible (P22). The latest report on idle state assets taken over by the MoF/DGSAM shows less than ten parcels of real properties worth around 50 billion rupiahs (DGSAM 2017).

One comprehensive illustration based on real life experience was given by participant P22. This is to explain how a set of the current policies addresses idle assets problems. A taskforce of the DGSAM conducts a supervision and control activity on Ministry A. A parcel of land owned by the state is found by a task force from the MoF. If the parcel has been vacant for years, it could be an indication that the parcel is an idle asset. By law, the MoF through some procedures could take over that parcel from Ministry A. However, this action could be challenged by the Ministry, simply by stating that there is a plan to utilise that parcel in the coming years. In another scenario, an identified party utilises that piece of land and the utilisation is not in line with the duties and function of a ministry. By law, in this circumstance, the land can be defined as an idle asset. Rather than follow the ministerial decree No. 71, the ministry could choose another way around which is also allowed by other regulations. The ministry could apply for approval from MoF to

continue using that asset even though the business activities have nothing to do with the duties and function of the ministry.

The problem of idle assets uncovers other challenges of the Indonesian PAM namely the absence of asset performance measurement and the weakness in the regulation for defining the roles of the asset manager and the asset user.

### **6.2.3 Regulations and Policies**

While many participants express concerns on practical problems in Indonesian PAM, some vow there are more fundamental issues on how the government regulates public asset affairs. As explained in Chapter 2, PPPs and PAM Practices, the policy framework in the Indonesian PAM consists of four levels of regulations. From the highest to the lowest, the four levels of PAM policies in Indonesia are the laws which are enacted by the government with the approval of the parliament, central government regulations, ministerial regulations, (in this case, the MoF) and technical regulations issued by the DGSAM. All the regulations become guidance for the PAM in regard to the asset life cycle starting from planning and ending with the assets disposal. In addition to that, the government accounting standards also shape the Indonesian PAM.

There are four issues regarding PAM policies in Indonesia as presented in Table 6.7 namely inflexible business processes, ineffective sanctions, inappropriate authority delegation, and the burden of the past. Those issues are parts of the theme of PAM regulations and policies which have been raised by participants from the asset managers, private sector and the member of parliament (see Table 6.1). In the first place, the flexibility problem is expressed the most by many participants from the DGSAM. The policies could not address certain problems because of the rigidity in regulating some aspects of PAM.

The following issues, as the state asset manager, MoF/DGSAM is equipped with an ability to render sanctions to other ministries/institutions whenever they fail to fulfil their obligations. However, some participants confirm that the sanctions are not imposable without creating negative consequences for other processes of asset management. After that, the role of the MoF as the asset manager has a significant authority from policy making, to the operational level which is providing (dis)approval on technical public asset transactions. Participants have different perspectives on how the DGSAM as the proxy of the MoF, exercises its authority. Finally, the current complications of asset utilisation are mostly inherited from previous mismanagement and misconduct by related institutions. The idea of a public asset amnesty has

been discussed by high level officials. This is to make a clear cut between past regime mistakes and the current challenges of Indonesian PAM.

**Table 6.7 – The Problems of the Current PAM Policies**

No.	Problems	Participants
1.	Inflexibility <ul style="list-style-type: none"> <li>a. Alteration of asset use</li> <li>b. Payment scheme in asset utilisation</li> <li>c. Requirements for asset utilisation</li> </ul>	P08, P11, P15, P18
2.	Ineffective sanctions	P17, P22
3.	Inappropriate authority delegation among the actors	P06, P07, P40
4.	The burden of the past	P01, P10, P21

### *Inflexibility*

Participant P18, with decades of experience in PAM and holding the highest position in an asset management unit, says:

As the director ... I can innovate new ways or issue much more flexible policies because of my institution as an independent unit. It has flexibility in managing its assets [portfolio]. Meanwhile, the DGSAM has different circumstances. There is a large opportunity in asset optimisation. However, the current regulation is very rigid and frequently inapplicable. It is simple to determine the applicability of a regulation. Just test it [with the current situation] and see whether it works. Even if we say that this is already very flexible [a claim by other DGSAM officers], the market still cannot absorb.

In the first place, she explains that the current set of policies is considered to be successful in addressing the problems with regard to administration such as recording and valuation. At the same time, the policies do not encourage the optimisation of the assets especially the real property ones. The current system has not yet accommodated the changes in the function of government owned properties based on their highest and best use. The payment system in one of the asset utilisation schemes is very rigid in that the private sector are required to pay up front for the five-year-long rental agreement. Those are two examples provided by the participant.

Several participants from the headquarters and the regional office of the DGSAM also echo the problem of flexibility in PAM regulations. The requirements for the utilisation of several assets are set too high which makes them difficult for the ministries/institutions to fulfil (P08, P11, P15). This condition exists when the ministries/institutions want to utilise their assets under the scheme of utilisation cooperation. The participant also mentioned paradoxical regulations in the preparation of asset utilisation involving private sector (P15). The ministries/institutions are required to prepare a comprehensive feasibility study if they want to utilise the idle assets. For

complex types of projects, this requirement cannot be conducted by the ministries/institutions due to lack of human resources with the relevant analytical skills. Without the assistance of the potential private company partners, the ministries/institutions cannot afford to provide such a complex proposal which is time and money consuming to prepare. Meanwhile, by law, the involvement of potential private partners only arises when prospective projects obtain approval from the MoF and are ready for a tender process.

### *Ineffective sanctions*

Regarding the sanctions imposable on other ministries/institutions who fail to meet their obligations, two participants from the regional office state that the authority held by the DGSAM is not effective enough to force other ministries to fulfil their obligations (P17 and P22). Even if the sanction is imposed on a ministry/institution, it could backfire on the DGSAM by disturbing other processes of asset management (P17). Based on article 22 and 23, Government Regulation No. 27/2014, the state asset users must submit their idle assets to the MoF, otherwise the MoF could impose one of these two alternative sanctions: freezing the maintenance cost for the related assets and/or holding the process of utilisation, transfer, and disposal of the asset proposed from the ministries/institutions.

The participant explains further that his office never proposes that the headquarters impose those kinds of sanctions. Recently, he formed and assigned several taskforces to investigate illegal state asset utilisation in his area of jurisdiction. The taskforces found some infringements. Instead of invoking the sanctions, the participant chose more persuasive approaches. As stated by the regulation, the first alternative for sanctions freezing their maintenance budget is not significant because they could maintain the asset from income generated by the properties. The second alternative is even worse because it could affect the performance of his office. The approach he took was requesting the breaching units to propose the asset utilisation and processing the proposal accordingly. Further he says, 'We are better to be forward looking and take persuasive actions in the first place. This is to avoid complexities and a bad relationship between us and the state users'.

### *Inappropriate authority delegation between the actors*

The next concern in the PAM policies is the authority of the main actors. As explained Chapter 2, the MoF has the authority of the asset manager and other ministries/institutions of the asset users. The MoF plays the role as the policy maker in the Indonesian PAM, establishing policies

at every step of the asset life cycle including planning, procurement, using, valuation, transfer, and disposal. Meanwhile, the other ministries implement the rules of the game set by the MoF. Some participants from the DGSAM criticise some aspects of these role divisions (P06 and P07). Participant P07 argues,

For non-real property assets, the role of the state users should be enlarged. On the other hand, for real property assets especially the utilisation of idle or underutilised real property, their roles should be minimised. The human resources of the state users have limited asset management skills especially in the field of real property management.

One interesting fact in regard to how appropriately the DGSAM exercises its authority in real property asset utilisation, is there are two contrasting views. The first one has been mentioned above, those two participants asked the DGSAM to take more active approaches and become more deeply involved in the whole process of asset utilisation. This argument comes from middle and lower-level management of the MoF. However, one participant (P01) holds the contra position. She thinks that the role of the MoF or the DGSAM in the future should be limited to the regulator, not the executor. The state asset users must be given more room and flexibility in managing the assets under their custody.

The authority of the asset manager should not be an issue, is a statement from the participant of the House of Representatives (P40). He states that the laws regarding the state treasury and state finance have given the MoF a powerful authority to regulate the PAM. If there are obstacles the MoF have in addressing problems, the MoF can revise their own policies to adjust to the current circumstances.

### *The burden of the past*

Realising the complex nature of the Indonesian PAM problems, one participant from the DGSAM headquarters proposes the idea of a public asset amnesty (P01). This idea is inspired by the tax amnesty program which was launched by the government in mid-2017. She further says:

Asset amnesty in general terms is defined as the government recognised all previous property contracts between government institutions and private sector partners even though the contracts had no approvals from the MoF. However, once the contractual periods end, the contracts cannot be extended, and the assets will be taken over by the government (P01).

Most current contractual problems of asset utilisation are inherited from the previous regime. In other words, the current PAM development has to carry the burden of the past.

Her view on this issue is based on the reality of the large numbers of illegal state asset utilisation cases inherited from the era of Soeharto's regime. Those utilisations were conducted without approval from the MoF. As a result, the process and the contracts do not meet the criteria of the current policy. She mentions that the government has issued two ministerial regulations to address the problems in national military and police institutions. However, the progress of these policies has satisfied neither the MoF nor its counterparts. Only a handful of cases could follow through the special treatment program. Almost all of them could not proceed because they could not meet the requirements of the regulations. As long as the cases are not resolved, every year the BPK gives notes on the central government financial statements regarding this problem.

The idea of an asset amnesty is supported by participants coming from the lower managerial level (P10 and P21). In several ongoing BOT projects which have not been approved by the MoF, the private sector has already paid money and invested in the projects in the form of buildings or facilities. In conducting business valuations of several BOT proposals, the valuation teams several times found difficulties in separating the investment already made by the private sector from the assets owned by the government (P21). The legal complications of the past contracts also make decision making more difficult as the assets are physically occupied by the private sector. Once the government recognises and respects the 'illegal' contracts, the operation can be continued until the terminal period which is mostly short as the contracts were signed decades ago.

#### **6.2.4 Lack of Asset Performance Measurement**

Awareness about asset performance has been rising across management levels in the DGSAM. They have realised that even as public goods, the assets must be utilised at their optimal level. This can be seen from participants' answers on what the challenges of the Indonesian PAM are. The idle or underutilised assets issue is mentioned by almost a third of the participants from this institution. However, when asked to further drill down their ideas about performing and not performing assets, their answers are relatively normative. Effectiveness and efficiency are the preconditions for the asset to be labelled performing (P09, P19, and P05).

Notwithstanding, an interesting perspective is articulated by one participant regarding performance measurement in PAM. He says:

The current framework ... has classified assets into two categories which are under the custody of the asset manager or the asset user. The asset manager by law is able to take over the asset from its user once it is classified as idle. But in that regulation, idle is

defined as completely unused. For asset that is being used, the government cannot measure how it performs because currently we still do not have a measurement system. Nevertheless, our institution has published a presidential level regulation which tries to standardise the government office size and facilities based on the staff ranks and number. Therefore, the term efficiency in office area now can be quantified (P05).

The presidential regulation which is referred to by the participant above is 2003 Presidential Decree regarding the construction of government office buildings. The decree provides standard office areas for different levels of government offices. However, this regulation has not answered the questions about performance indicators of an asset as further said by participant P05.

Asset performance is different to asset management performance. Asset performance refers to a valuation of how an individual asset performs in fulfilling the needs of the organisation. Meanwhile asset management performance talks about the achievement of the asset management as a whole (P05). The current framework of the Indonesian PAM has not provided any concepts of asset performance. In government regulation No. 27/2014, the word ‘kinerja’ (the Indonesian word for performance) is mentioned only once and the regulation does not mention anything about its definition and its criteria. It just says that the determination of performance indicators is conducted by the state asset users.

#### **6.2.5 Lack of skilled staff in the state asset users**

In managing public assets, the skills of property management and valuation are essential for staff both in the custodian ministries and even more importantly in the asset managing body (P08). According to P08, a DGSAM employees have acquired those skills sufficiently from continuing professional development and field assignments. However, this participant doubts that the asset user institutions have adequate human resources to manage their properties properly. This is plausible as every ministry has its own main function and certainly property management is not their top priority. Furthermore, the participant says:

The current policy has put too much pressure for the state asset users. For example, in a BOT arrangement, the unit is required to prepare a feasibility study taking into account a 30-year projected cashflow. You can imagine, if that unit is a national police office. How much efforts and resources they have to allocate for something that is not their main function. Therefore, I strongly recommend our organisation to take over the jobs from A to Z [the entire process], in complex asset management projects (P08).

The original claim of this participant about skilful DGSAM staff is valid and can be verified in two ways. First, property management is the ultimate function of this organisation therefore in the very beginning of staff recruitment they try to recruit the best candidates with the proper

educational background said a director of the DGSAM who once led a personnel division (P13). This institution also has both internal and external continuing professional development for its staff. The institution has a significant amount of budget committed for human resources development by sending them to further formal studies in domestic universities or even abroad. It is also supported by MoF's Education and Training Agency (MoF 2012b).

#### **6.2.6 Auditors' perspectives**

Meanwhile, from the perspective of government internal auditors, there are three general problems in PAM in most ministries. First, participant P37 finds that some officers in PAM are lacking prudence in conducting their actions. He gives one example when one state asset was sold, but the selling price determination did not follow the regulation. In addition, some fraudulent activities have been discovered by special audit activities of significant state asset transactions. Those frauds occurred during the auction of ex-Indonesian Banking Restructuring Agency (IBRA) assets. IBRA was founded after the 1998 Indonesian monetary crisis. One of its jobs is to take over the collateral assets of non-performing loans from several Indonesian banks. Years later the property assets were handed over to the DGSAM for either sale through auction or use by government agencies.

The critical points in the PAM process based on an auditor's perspective are in the procurement process including the tender process when selecting the private companies of an asset utilisation partnership, and in asset disposal including the valuation and auction process. Last, the internal control in PAM is still considered not strong enough to safeguard state assets, to ensure the reliability of the asset reports, and to promote efficiency and effectiveness.

A auditor participant sheds light on the purpose of state asset valuation and the completeness aspect of assets presented in the financial statement (P36). He greatly appreciates the state arrangement program conducted by the government. The direct outcome of that program is the improvement in the central government financial statement especially in the fixed asset presentation.

From 2004 until 2008, the BPK disclaimed giving an opinion on the central government financial statement due to the problem of lack of internal control and other material accounting problems (Kompas 2009). The state arrangement program was launched in 2006 and the result of that program has been in the national asset database since 2008. That program enhanced the quality of the financial statement as can be seen in the audit result of the 2009 financial statement. For



the first time, the BPK delivered a qualified opinion. The state asset arrangement program was claimed to be one of the major factors in the increased quality of the central government financial statement (Budianto 2014).

### **6.3 The Progress of Indonesian PAM under the DGSAM**

The DGSAM was established in 2006 as part of an internal reorganisation of the MoF (President of Indonesia 2006). The objectives of that new echelon I were to address fundamental problems in the Indonesian PAM and PP No. 6 Year 2006 was this newly established unit (GoI 2006a). Three years after its establishment, the DGSAM launched its ambitious program to arrange the state assets across the nation (President of Indonesia 2007). Despite many weaknesses during the implementation, the program was enormously successful in establishing the first value-based government asset database (P04, P38). This database is priceless for any future decision making, and policy formulation (P38).

The further stage of the state asset arrangement is a land certification program which has been conducted since 2009. This is a joint program between the MoF-DGSAM with the National Land Agency (BPN) that targets all tens of thousands of undocumented government-owned lands being legally certified by 2022 (DGSAM 2019). This program seems effectively to answer the concern of many state asset users regarding their asset security (P23, P25, and P27).

During Hadiyanto's tenure, the DGSAM has adopted good governance principles in its PAM framework including openness and transparency, accountability, rule of law, professionalism and competency, efficiency and effectiveness, responsiveness, private sector partnership (Hadiyanto 2009). He was the first Director-General of the DJKN, who held the position for almost a decade from 2006 (DGSAM 2015). He mentions further that the organisation has experienced a shift of paradigm from just being a state asset administrator into a state asset manager. Three changes have been argued as evidence of that paradigm shift in Indonesian PAM namely the adoption of the asset life-cycle concept in the PAM framework, the adherence of good governance principles in the PAM policy and law reform, and the integration of asset and budget planning as a part of public accountability both at national and sub national level. (Hadiyanto 2009).

The above progress is justified by the perspectives of internal and external actors of the Indonesian PAM. Internally, both high and middle level officers of the DGSAM are confident that their institution has stepped up a higher level of governance, yet they recognise some room for improvement (P02, P12, and P15). From the perspective of outsiders who are BPK auditors,

the increasing quality of audit opinions issued by the BPK shows that the DGSAM has successfully increased its accountability through reliable asset disclosure in the central government financial statement (P35).

## **6.4 Conclusion**

The findings discussed in this chapter come from the experiences and views of the participants in the Indonesian PAM. Those views were also compared with the results of document analysis. As the perspectives come from five different groups of participants, the findings are also discussed based on their groups of origin to establish the perspective of each group. However, this does not mean that participants from similar groups shared the same views and vice versa. In this section, how the participants from different backgrounds view their PAM experiences and the summary of the challenges are discussed accordingly.

The participants from the asset manager group are highly concerned with six themes namely asset security, asset utilisation, regulation and policies, performance measurement, public asset reporting, and asset management skills. The participants with an asset manager background view more issues because asset management is their daily task and domain. Yet, some views from this group are contradictory as it depends on how they interact with the circumstances.

The views of asset users are influenced by their organisational objectives in regard to public assets under their custody. As assets make up a major part of their financial statement, their asset presentation considerably influences the audit opinion. Therefore, they rate the asset registry and asset security as high priority problems.

The auditors' role is to verify that auditees, both the asset manager and the asset user, behave in accordance with the regulations and policies. Internal and external auditors have different audit agenda. External auditors of the BPK focus on a general audit of a government financial statement but in some circumstances, they can conduct different types of audit. Meanwhile internal auditors, in this study coming from the MoF Inspectorate-General and the BPKP, focus on helping the auditee with finding their problems and offering them alternative solutions.

The private sector interviewed in this research come from parties who have contracts with the government in utilising public assets. Their only concern is about consistency with every policy issued. Unlike the private sector, the MP participant can provide a bird's eye view as he has been involved in high level discussion on PAM regulations.

In general, the problems of idle or underutilised assets, the asset registry, and asset security are viewed as the main challenges of the Indonesian PAM. First, idle or underutilised assets which are also known as surplus assets are the ultimate problem of the Indonesian PAM because there is a complication of other underlying problems namely the lack of asset performance measurement and the weakness of the related policy. The former limits the government's capability to properly figure out its surplus assets and the latter fails to deliver effective sanctions to the asset users who fail. Several more complications will be revealed in the following chapter regarding how the past and current policy has dealt with the idle asset problem.

The following problems regarding the asset registry and asset security are experienced by large ministries due to a large number of assets under their custody that are located nationwide. Numbers of assets located in remote areas are still unregistered and not supported by legal documentation. The circumstances increase the possibility of losing the assets, or their being taken over by other parties. These problems were also the major concern of the DGSAM before the new asset database was employed and the asset arrangement program completed. However, the problem of uncertified land still exists despite the land certification program recently conducted by the government.

In regard to the PAM regulation, the problems of inflexibility, ineffective sanctions, inappropriate authority delegation and the burden of the past are revealed. The current regulation is not flexible enough to accommodate the changing environment of the private sector. In order to force the asset users to transfer their surplus assets, the asset manager can drop sanctions, yet the sanctions are not effective and even backfire. Furthermore, the asset manager should take on more roles, especially in managing the surplus assets. This is to enable the institution to address the obstacles in asset utilisation. Last, the unsound practice of the past contracts impedes the effort of the government to enforce the current regulation.

The findings from the experience of PAM are important to guide the research to move on to the next subtopic which is PPP's practice. These findings do not only answer the first research question about the development and challenges of Indonesian PAMs, but also give an understanding to why the government adopts PPPs in solving their problem of idle or underutilised assets. Having gained an understanding of the challenges of Indonesian PAM, the thesis analyses findings regarding PPP adoption in the following chapter. Those findings come from four selected case studies.



## **Chapter 7**

### **PPPs in the Indonesian PAM: Motives and Challenges**

#### **7.1 Introduction**

In the previous chapter, the discussion of the development and challenges of the Indonesian PAM leads to the answer to the first research sub question. Likewise, in this chapter, the views and perspectives of the participants regarding PPP adoption from the four case studies are discussed in order to identify and analyse the findings. The findings build the narrative and discussion to answer the following research sub questions ‘What are the rationales and challenges of PPPs adoption?’ and ‘What are the characteristics of PPPs to be considered in PAM?’.

This chapter is organised into six sections including the introduction and the conclusion. The second section especially discusses the motives and development of the PPP adoption, the following two sections discuss the background of four case studies and the emerging themes from semi-structured interviews. After that, the PPP characteristics are analysed, and the chapter is concluded.

#### **7.2 Motives for Adopting PPP in Managing Public Assets**

Prior to the enactment of the 2003 State Finance law, and the 2004 State Treasury law, the Indonesian government has already partnered with the private sector in utilising their surplus, idle or underutilised assets. The partnerships were contractual, long term in nature and mostly utilising the built-operate-transfer scheme. The Ministry of Defence and the National Police had the most numbers of these property-based partnerships contracts (P01). Some were not registered and recognised by the MoF.

Prior to bureaucratic reform in 2004 and political reform in 1997, government practices did not recognise the principles of good governance such as professionalism, transparency and accountability. Likewise, in managing public assets, although the Directorate-General of Treasury had the authority to manage public assets, it was not as powerful as that of the DGSAM. Even though there was the MoF regulation, several government institutions did not comply with the rules in managing their assets especially in utilising their surplus or idle assets (P03 & P14).

This problem became the main obstacle as those assets were still under the private sector's control.

The typical BOT partnership contract was where the government offered vacant lands to the private sector because the agencies did not have any plan to utilise the assets in the foreseeable future. The private company invested a large amount of money not only to develop the land by constructing income producing properties but also in most cases to provide facilities for the agencies such as housing and vehicles. This kind of information was revealed from the partnership contracts signed by both parties prior to the establishment of the DGSAM in 2006.

There are three alternatives to address the problem of surplus assets but inviting the private sector is the only option available if the asset users choose to maintain their control on their surplus assets. One participant of the DGSAM (P14) explains further:

They can either sell the asset, hand it over (to the MoF), or utilise it by inviting private sector investors. Option 1 and 2 are not attractive at all for the ministries. The proceeds of asset disposal will go to the state account. Transferring the asset will make their institution look not important and not developing. They realise that the government budget is strictly limited, and they do not have either expertise or time to develop the asset by themselves. Therefore, the only viable choice is to form a partnership to develop the asset.

#### *Access to external funding and private sector's expertise*

The property market in Indonesia mostly in the megapolitan city of Jakarta has been thriving for decades. Prior to the 1998 economic crisis, Indonesian economic growth had been growing steadily between 5 and 10% annually (BPS 2018). For that reason, together with South Korea, Malaysia, and Thailand, Indonesia was considered as one of the Asian Tigers. The demand for office space in Jakarta was soaring, but the supply was limited. At the same time, ministry M1 required more spaces to accommodate its expanding organisation. Two interests met and decided to form a partnership that could serve both their objectives. In the circumstances, the private sector approached and offered what Ministry M1 looked for.

Before searching for external funding, ministry M1 (case study CS-1) approached the MoF for capital expenditure to build one office tower next to its existing one, but their proposal was not approved. Building an office was not a government priority. At that time, ministry M1 had only one office tower on a spacious land area. Its expanding functions required additional office space for hundreds of its newly recruited employees. However, the ministry could not afford to erect another office tower because of a lack of government funds. 'Our lobby to the Directorate of

Budget was not successful. The MoF said that the government at that time [1990] prioritised its public infrastructure program' (P23).

The property of ministry M1 is located in prime areas, near Jakarta's central business district, and surrounded by commercial centres such as malls and hotels. Vacant lands in Jakarta were scarce, and the property developers kept searching for landowners who would like to sell or to develop their properties. Two interests met and decided to form a partnership that could serve both their objectives. In the circumstances, the private sector approached and offered what ministry M1 looked for. They provided not only the funds required to establish a new office tower but also the expertise both in building construction and operation.

Before the establishment of the DGSAM, public asset management was conducted by the DGT, both are under the MoF. One participant from the DGSAM (P14) with decades of experience in the Directorate-General of Treasury (DGT) explained the adoption of PPPs in managing public assets in Indonesia from the perspective of the asset manager as follows:

Since the asset management affairs were under the DGT [before 2006], the asset users have already realised that the government will not have sufficient funds to support their proposed project and therefore a BOT scheme is the only way left. The types of the projects varied depends on site locations. Several hotels have been erected on government's properties in the island of Bali. The [private sector] partners invited several international big brands to manage the property once the construction completed.

Participants from the ministries M2, M3 and M4 also realised that their projects (CS-2, CS-3 and CS-4) could not be self-funded by the government. Unlike CS-1 project where the development was to support the function of ministry M1, projects in the other case studies have nothing to do with the main function of the ministries. In addition, they also do not have the expertise to run the projects by themselves.

A ministerial level regulation regarding state asset utilisation existed (MoF 1994) which mentioned the requirements for the private sector to become partners in BOT projects. They had to have reliable financial resources and expertise in the business of the project. The current regulation has set higher requirements in that the private sector partners are obliged to not only have sufficient financial resources but also have skills, experience, technical and managerial abilities, human resources, equipment and all other relevant matters (MoF 2014a).

### *Safeguarding the assets from illegal occupation*

A participant from ministry M4 further explains that putting aside case study CS-4, most partnerships in her ministry are to safeguard the assets (P27). The property of CS-4 is located in a big city and occupied by her branch office, so there is no risk of it being taken over by other parties. She explains further,

Our military installations are usually surrounded by large vacant lands. If we do not utilise them, local people possibly will occupy. After years of occupation, it will be very difficult to drive them away. As precautionary actions, we invite the private sector to develop the site given two requirements. The [private sector] partner has to obtain the legal ownership of the vacant land by registering those lands to the National Land Agency. They also must recruit local people as their employees. (P27).

### *Gaining additional fixed assets*

In addition, the investment from the private sector is seen as an opportunity for many government officers to obtain facilities such as housing and vehicles, that if requested through a normal budget process will be difficult to obtain (P08). This information can be verified through the contracts obtained from the participants. In CS-2, the contract between ministry M2 and company C2 mentions the obligations of the company. Besides constructing the shopping centre, they were also required to build offices, classrooms, official residences, sporting facilities, and provide vehicles. However, participant P08 considers that transaction was still acceptable as the facilities were meant to mainly support the institution not the individual officers. He also mentions at that time, the internal control and governance were very weak. There were still possibilities that the assets were utilised for individual interest especially the movable properties.

### *Other motives*

The state asset users have another motivation to increase the revenue from their state asset utilisation. The current regulation regarding non tax revenue allows the ministries/institutions to propose an additional budget resulting from the non tax revenue they have paid (GoI 2018b). Yet, the MoF holds the authority to approve or reject the proposals from the state asset users. Currently, the DGSAM and the Directorate-General of Budget are discussing the idea of giving more flexibility for the state asset users in utilising the revenue coming from the asset utilisation projects (P07). The DGSAM intends to encourage the state asset users to manage their assets efficiently and utilise the surplus assets for additional nontax revenues.



The suspicion of a kickback to related officers was raised by two participants (P08 and P28) who said that some money is channelled to his institution from the operation of the partnership. However, the money is used mostly to support social activities of his institution such as donations, mass health service and national independence celebrations (P24). Those kinds of activities are not funded by the state budget. ‘his practice does not go unnoticed’ said one participant from the DGSAM (P08). The participant believes that as the regulation and governance improve, the practice will diminish eventually. He also added, the strict due diligence prior to the project approval, will reduce the possibility of kick back transactions.

**Table 7.1 – Rationales for PPP Adoption in the Indonesian PAM**

No.	Rationales	Sources
1.	To obtain external funding due to the limitation of government budget.	Regulation, DGSAM, M1, M2, M3, M4
2.	To gain the private sector’s expertise as the government officers have neither business management capabilities nor property expertise	Regulation, DGSAM, M1
3.	To safeguard the idle assets from illegal occupation	M4, DGSAM
4.	To acquire additional fixed assets for the custodian agencies	Contracts, DGSAM
5.	To fund unbudgeted organisational activities and additional income for the officers	M2, DGSAM
6.	To get additional budget allocation from the nontax revenues.	Regulation, DGSAM

Table 7.1 presents the rationales of PPP adoptions in the Indonesian PAM context. The main reason for adopting PPPs in managing public assets is to access private sector funding as the government budget is limited. The second reason is to obtain expertise and experiences from the private sector as the government has limited human resources to manage projects by itself. For large ministries having problems safeguarding their assets, PPPs help them to prevent illegal occupation by third parties. The nontax revenue collected from the projects can lever the bargaining position of the state asset users with the Directorate-General of Budget, the ministry can ask for an additional budget allocation due to a large amount of funds contributed from the projects. Nevertheless, the participants still recognised the existence of unsound practices regarding kickback from the partnerships to several related officers.

The attempts of officials from the state asset custodian to exploit public assets as items to leverage in budget games, have no challenges from the MoF. On the contrary, the current regulation on nontax revenues encourages government institutions to continue the practice.

### 7.3 The Challenges and Impact of PPP Adoption

Table 7.2 presents sixteen themes related to the four case studies which emerge from the data set of the semi structured interviews. More detailed information regarding each case study is extracted from the later parts of the interviews. The participants are asked to discuss their experiences and express their perspectives regarding the case study more deeply. The data set are then organised and extracted to discover the emerging themes from each case study and the different backgrounds of the participants. Both similarities and differences of ideas from every case study are sorted, collated, and coded in order to search for more conceptual arguments. The validity of the arguments is tested with other arguments from different participants as well as with the document analysis.

There are sixteen themes classified into regulations and policies, contracting parties, and the impact of partnerships. Furthermore, the issue of inflexibility becomes the concern of all private sector participants from the four case studies as well as from the auditors and a participant from the public sector agency. As expected, lack of flexibility regarding government regulations and partnership contracts is reasonably common in several countries.

**Table 7.2 – Emerging Themes: The Challenges and Impacts**

No.	Themes	CS-1	CS-2	CS-3	CS-4	Others
<b>A.</b>	<b>Regulations and Policies</b>					
1.	Uncertainty from policy changing	M1	C2			Auditors
2.	Narrow room for discussion given to the private sector	C1				
3.	Multi-interpreted regulations	M1	M2		M4	DGSAM
4.	Inflexibility of government regulations and contracts	C1	C2	PSA3, C3	C4	Auditors
5.	Inappropriate organisational structure			PSA3		
6.	Lack of harmonious policies and coordination between central, provincial and local governments				C4	Auditors
7.	Intervention during the tender process			PSA3, C3, M3		
8.	Lack of a dispute settlement mechanism	M1				DGSAM
9.	Infrastructure projects should be privileged with lower payments and longer contract periods				C4	DGSAM
<b>B.</b>	<b>Contracting Parties</b>					
10.	Lack of transparency by the private sector partner					DGSAM
11.	Lack of commitment from partnership actors					Auditors

No.	Themes	CS-1	CS-2	CS-3	CS-4	Others
12.	Lack of expertise in drafting partnership contracts			PSA3		DGSAM
13.	Lack of expertise in preparing feasibility studies		M2			DGSAM
14.	The roles of a public service unit in addressing government inflexibility			PSA3		DGSAM
<b>C.</b>	<b>Impacts of the Partnerships</b>					
15.	Significant support for national sport activities			M3		
16.	The positive effects for national and local economic growth.		M2 C2		C4	

### 7.3.1 Regulations and Policies

#### *Uncertainty from policy changing*

The CS-1 has a long and complicated background involving the private sector partner changing several times and passing through some important turning points in Indonesian history both politically and economically. In the CS-1, the parties involved are ministry M1 and company C1). One participant the ministry describes how problematic the CS-1 project is, he said:

The Project [CS-1] was initiated in 1992 ... At that time, one dollar [USD] was only around IDR 2,000 (now USD1 is equal to IDR 15,000). Our minister sought for an approval from the MoF for a proposed BOT project involving a private sector partner. The partner had already been appointed without any tender process. Along the time, the partner several times transferred its right on the contract to its affiliate. Likewise, the land area of the project had also been reduced to only around 6,000 square metres. The monetary crisis in 1998 caused the project construction halted for years before it was completed in 2012. The changing of regulations and the findings from the BPK had complicated the situation as the contract signed by all parties, seemed not comply anymore. (P23).

**Figure 7.1 – The Milestones of the CS-1 Project**

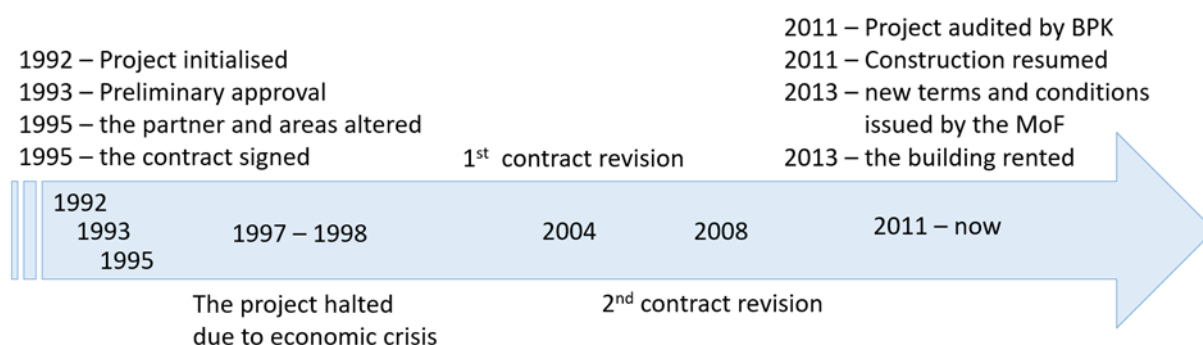


Figure 7.1 presents the milestones of the project from 1992 until now. The first milestone of the project was when ministry M1 sent an official letter to the MoF in 1992. It sought for an approval of its proposed partnership with its partner using the scheme of build, operate, and transfer (BOT). This letter was fruitful as could be seen by a preliminary approval issued by the MoF in only two months. In the preliminary approval, the MoF asked ministry M1 to establish an inter-ministerial committee to conduct all administrative procedures and a feasibility study regarding the proposed BOT project. In case study CS-1, the private sector partner changed two times due to the previous partners were not able to pursue the construction.

As the CS-1 project had started prior to the asset management reform, the regulation that applied at that time was just a MoF decree. The process of state utilisation under the decree at that time was actually much simpler than the current policy. There was no property valuation required. Once the preliminary approval from the MoF was issued, the joint team consisting of officers from the proposing ministry and the MoF analysed the project proposal and decided several key points of the contract. The points discussed included the detailed contribution from both parties, the length of the contract, the payment, and the termination mechanism.

The contract between ministry M1 and company C1 had significantly changed over time to comply with the Indonesian economic situation as well as PAM policy reform. In the beginning, the contract used the American dollar as its denomination. Then due to the fluctuation of the Indonesian rupiah against American dollar, the contract changed the denomination into rupiah. In the beginning, company C1 could operate the whole building until the end of the contract. Then under the government regulation, in a BOT contract, once the construction was completed, the private sector partner was compelled to submit at least 10% of the building space to the government. To illustrate how difficult their situation was, a participant of Company C1 mentioned:

In the first place, the government did not require the direct hand over of a certain percentage of the building to them. It will significantly alter our income forecast. We are open to discussing however, we expect the MoF and ministry M1 pay some respect to our initial contract (P31).

To understand how the contract changed over time, Table 7.3 presents some important amendments to the contract and the request from the government. As can be seen, several changes were unilaterally decided by the MoF. The length of the contract is still 30 years but the MoF includes the construction period which is a 4-year reduction from the previous contract. Then, company C1 is obliged to hand over 10% of the building and its facility to ministry M1. This

obligation was not written into the contract. In addition, the amount of annual contribution from company C1 is the only payment but the amount is significantly higher as the pre stated annual increase is more than double that of the current contract.

**Table 7.3 – The Contract Amendments between ministry M1 and company C1**

<b>1993</b>	
Land area	More than 1 hectare
Length of contract	30 years excluding the construction period
<b>1995 – Initial contract</b>	
Land area	Reduced by around 4,000 square metres
Length of contract	30 years, construction period: 1995 – 1999
Company obligation	<ol style="list-style-type: none"> <li>1. The annual contribution to maintaining another building of Ministry M1 of USD175 thousand with 2% increase per year</li> <li>2. The annual contribution to the government of USD50 thousand and subjected to 3-year review</li> </ol>
<b>2004 – The first amendment</b>	
Land area	No changes
Length of contract	No changes, construction period: 2004 – 2008
Company obligation	<ol style="list-style-type: none"> <li>1. Annual contribution to maintaining another building of Ministry M1 of IDR1.5 billion with 2% increase per year</li> <li>2. Annual contribution to the government of IDR500 million and subjected to 3-year review</li> </ol>
Other	<ol style="list-style-type: none"> <li>1. The company could use its rights from the contract as collateral to obtain a bank loan.</li> <li>2. The company could transfer its rights to another party (from PC1 to PC2)</li> </ol>
<b>2008 – The second amendment</b>	
Land area	No changes
Length of contract	No changes, but the construction period was revised due to the delay
Company obligation	No changes
Others	Company c1 took over the rights and obligations of company PC2
<b>2013 – The proposed amendment from the MoF</b>	
Land area	No changes
Length of contract	30 years but including the construction period.
Company obligation	<ol style="list-style-type: none"> <li>1. To hand over 10% of the building to ministry M1.</li> <li>2. The annual contribution of IDR2.7 billion with 5.66% increase per year</li> </ol>
Other	<ol style="list-style-type: none"> <li>3. Company C1 could use its right from the contract as collateral to obtain a bank loan.</li> <li>4. Company C1 could transfer its rights to another party.</li> </ol>

The annual contribution requested by the MoF comes from a business valuation process conducted by government valuers. One participant of the DGSAM valuers realised that their calculation would alter company C1's financial forecast (P15). The participant then clarified that their valuation was conducted based on current market prices and data from the property industry so that in the end, the financial calculation they provide is fair and valid both for the government

and the private sector partner. Therefore, company C1, according to them, should have no reason to reject the MoF request because it has the financial capability to meet it,

In case study CS-2, the management of company C2 also declares his concern regarding changing regulations that negatively impact the company's financial performance. He says, '...Our business is in decline recently ... In the middle of this harsh situation, the government asked us to adjust our contribution based on a new regulation issued' (P29). The participant also requests the government to consider types of business in determining the profit-sharing contract between the government and the private sector (P29).

One of the auditor participants (P39) also criticises the inconsistent policies issued by the MoF. He refers to the MoF regulation No. 23 Year 2010 that has been revised several times, the latest is No. 54 Year 2015. There are two problems regarding this policy. First, it has been revised several times which creates confusion especially for the state asset users. Then, the MoF as the asset manager, seems not to consistently regulate the past problems of state asset utilisation in other ministries besides the Ministry of Defence and the National Police. He believes that a single policy that applies to all government agencies would be much more effective.

#### *Narrow room for discussion with the private sector*

The latest development of the contract between the government, in this case ministry M1 and company C1, was the new requests from the MoF. PP No.6/2006 is the regulation that applied at the time when the MoF requested the new terms for the BOT contract with company C1. The regulation stated that for a BOT contract between the government and the private sector, there must be a valuation both on the assets in the form of a property valuation and on the proposal in the form of a business valuation. The valuation itself is mostly conducted by the internal government valuers. However, in PP No. 6/2006 itself, there is a possibility that the valuation will be conducted by independent valuers. No different from any other cases, in CS-1. the joint team consisting of officers from the MoF and ministry M1 applied all the financial figures reported by the valuers as the basis to draft the contract with company C1. The financial figures refer to the annual contribution that has to be paid by company C1.

The participant from the MoF, who is a member of an inter-ministerial team of asset utilisation said:

PP No. 6/2006 regulates that in the process of asset utilisation adopting PPP whatever the scheme used, there must be a valuation process ... Once they send valuation reports

to us, most likely we take their financial figures for granted and they become the minimal amount we will ask from private sector during a tender process. Likewise, in CS-1, we used the figures from the valuation report as a basis for requesting new terms to company C1. We do not have the capacity to challenge or amend those valuation figures (P09).

As can be seen in Figure 7.1, in 2013 the government requested an increase in the annual contribution by five times of the existing contract between ministry M1 and company C1. Company C1 is resistant to any changes requested by the government which will significantly reduce their current and future income streams. The participant from company C1 explained:

In the time of an economic crisis, we tried to continue the construction process by inviting other investors. In doing so, we financially engineered our capital structure. ... Moreover, we believe that based on our legal system, the contractual agreement between us [company C1 and ministry M1] is binding and must be respected by both sides. We respect the government position, but we are against the new terms from them. However, to show our goodwill that we still respect the contract, we keep paying our obligation on time (P31).

A different perspective comes from the participant of the government valuers. To begin with, P15 began by explaining the process of due diligence on proposals of PPP in asset utilisation and then the roles of valuers, asset managers and the inter-ministerial team. He argued:

In our existing regulation [PP No.6/2006], the roles of the inter-ministerial team are very important in decision making. The team has a discretion to discuss and negotiate the financial obligation with the private companies. They could consider non-financial factors that might be omitted by the valuers. ... Given the circumstances, the team could exercise their authority to reach a compromise agreement with company C1. The hesitation of the asset manager [the joint team] in making decisions, in many cases, make us [the valuers] have to redo the valuation because the values we issued are no longer valid by law or by property circumstances (P15).

The hesitation of the asset manager to deviate from the valuation reports comes with some justification. The asset managers will face more questions from auditors both from internal government and the BPK. Once they deviate from the valuation figures in deciding the obligation of the private sector. PPPs in public asset utilisation, in the past, became one of the sources of corruption as stated by one participant who is an auditor (P39). The auditors perform due diligence on every aspect of PPPs starting from the very beginning process where proposals are sent by a ministry to the MoF asking permission for asset utilisation. Another auditor-background participant (P36) emphasises the importance of putting the government interests as their top priority. He argued that both the valuers and the asset managers must choose the option that will result in the highest income for the government. Asked about his opinion regarding the many approaches that can be adopted by the valuers, and all of those approaches are valid by the

valuation standards depending on circumstances, the auditor participant said that the valuer should choose the method that will result in the highest value of the government property. Otherwise, he will scrutinise further to satisfy his suspicion (P36).

### *Multi-interpreted regulation*

Two participants from two ministries (P23 and P27) state the problem of multi-interpretation regarding current regulations in state asset utilisation involving partnerships with private sector. The participant from ministry M1 describes further:

PP No. 6/2006 states that in a BOT contract, the government is entitled to use it straight away once the building construction is completed for at least 10% of the building constructed. According to company C1, the government could occupy 10% of the building but the government is still obliged to pay rent and service charges similar to any other tenants. The government just has the priority to occupy one-tenth of the building (P23).

To address the dispute between ministry M1 and company C1, the government asked the BPK to conduct a compliance audit on case study CS-1. The audit result presented several findings in terms of the project compliance under PP No.6/2006. The BPK mentioned that ministry M1 had not periodically reported the project development to the MoF. It was also found that the project had not gained the MoF approval concerning the contribution payment. The most significant finding was that in the current contract, there was no clause about the obligation from the partner C1 to surrender at least 10% of the building to ministry M1 once the construction was completed.

PP No. 6/2006 was issued by the central government to regulate not only assets owned by the central government but also those owned by provincial and local governments. Regarding state asset utilisation, PP No. 6/2006 is detailed further by a ministerial level regulation namely PMK No. 78/2004. Document analysis reveals the government's direct entitlement to the 10% of the building. A participant from the DGSAM (P09) explains that the main reason company C1 refused to allocate 10% of the building to the government was because this allocation was not stated in the agreement between company C1 and ministry M1. The participant said that there is no statement that the government can use that allocated space without any obligation.

Meanwhile, a participant with a valuer background offers a different interpretation (P22). The government does not have to pay the rental charge, but it is still required to pay the service charge. It is common practice that tenants have to pay for facilities and services they obtain from the building management in addition to the rental charge.



In regard to another state asset utilisation, the current regulations state that there are four types of state asset utilisation namely lease, usage borrowing, utilisation cooperation with a third party (KSP), BOT/BTO, and utilisation cooperation with a third party for infrastructure projects (Infrastructure KSP) (GoI 2014; MoF 2014a). The first type, lease, is a short to medium contract of five years at most, between the government with private sector. The second and third are basically similar. KSP is a BOT contract where the private sector construct buildings, use them during the agreed period, and hand them over at the end of the contract. There are two difference between KSP and BOT. First, in term of methods of payment, KSP requires two types of payments from the private sector namely a fixed contribution and profit sharing. The former is a certain amount of money paid annually, and the latter, the amount is determined by a certain percentage of the profit resulting from the operation. Meanwhile in BOT, there is only one payment called contributions. The second difference is, in BOT the government is entitled to use a minimum of 10% of the building once the construction has been completed. In KSP, this type of arrangement is not available. The government can only use the assets once the contract expires.

The other source of multi-interpretation is the definition of profit sharing. It is not clearly defined when the profit is shared whether in the first year, or after the partnerships pass the payback period. The participant from the DGSAM said, the project must pay the profit sharing whenever their annual accounting record shows profit (P15). It means, there is no 'profit sharing holiday' while the project has not surpassed its payback period.

One participant from ministry M2 comments regarding the profit-sharing definition:

Some potential investors have come and expressed their interest. We told them that by law, once the partnerships established, they do not pay any contribution until they have reached the point of profit which is after all their initial investment is recovered (P29).

Another source of different understanding is, that the regulation does not mention from what element of income statement the profit sharing is calculated, whether on revenues, gross incomes, or earning before tax. One participant with a legal background said that profit sharing calculation must take into account revenues and all related costs (P21). This argument is refuted by another participant. 'It is common in the private sector to use revenues as the basis of a profit-sharing calculation', he said (P16). To bridge those different understandings, the DGSAM has issued a feasibility study guidance (DGSAM 2014a). Yet, this regulation only binds the DGSAM internal valuers.

### *Inflexibility of government regulations and contracts*

The flexibility issue becomes the concern of all the companies in all four case studies as well as the agency PSA3 and one auditor participant. The sources of inflexibility from the current regulations come from: the tedious process of PPPs (P25, P30, P31), the determination of profit-sharing calculations (P31), the requirement especially to obtain the early agreement (P32), and the number of government institutions involved (P28). In regard to the contract, several participants believe the terms and conditions of the contract could be made more flexible especially dealing with payment schedules (P30).

As stated in the MoF regulation No. 78/2014, the typical procedure in utilising state assets using a KSP scheme is as follows. It is started by the representative state asset user (KPB) preparing an application equipped by a feasibility study. The KPB sends the application to its own ministry known as the state asset user (PB). The PB verifies the application, once the officer in the PB agrees, the PB forwards the application to the DGSAM as the state asset manager. In the DGSAM, they conduct three lots of analysis regarding the application namely a property valuation, a business valuation, and the asset utilisation analysis. All these activities are conducted by three different teams and the asset utilisation team uses reports from valuation teams as its tool in verifying the proposal. Once the asset utilisation team completes the analysis, the team gives a recommendation to the state asset manager who is the director-general of the DGSAM. The approval from the DGSAM comes with the predetermined minimum fixed contribution and the percentage of the profit sharing. The KPB follows up the approval by preparing the tender process. Once the winner is announced, the project is ready for the ground-breaking.

The above process is time and energy consuming for both the state asset user and the DGSAM said participant P08. Asset management is the main function of the DGSAM but not for the state asset users. The participant P25 describes as follow:

The human resources for managing state assets in our institution are very limited both in quantity and quality. ... The BOT analysis requires knowledge in property and capital budgeting. And we do not have that kind of resources. Therefore, we asked the potential partner to prepare the study for us.

The statement of P25 above is in line with the statement of P07 as discussed in the previous chapter, the latter believes that the DGSAM has to take over the process of asset utilisation using PPP schemes.

The long process as outlined shows that the KPB is required to prepare massive documentation and analyse both legal and financial aspects. The KPB also deals with its own superior institution, which is the PB, and three different teams from the DGSAM namely the property valuation, business valuation, and the asset utilisation teams.

#### *Inappropriate organisational structure*

One participant believes that her organisation would be more effective in conducting its asset management function if supervised by a more appropriate government agency which is the DGSAM (P34). One of the challenges for her institution is to report to a ministry whose main function is not asset management. The ministry is the Ministry of State Secretariat whose main function is providing protocol and domesticity services to the President and the Vice President (Ministry of State Secretariate 2015). In the past, the ministry and the Jakarta provincial government fought over the ownership and management rights of the sporting complex (Sulistiono 2003).

The idea of institutional reform in the Indonesian PAM by pooling all strategic assets under one institution is not novel and is appreciated by some high-level officials of the DGSAM. However a high level officer of the DGSAM has a different point of view. Participant P01 emphasis how the DGSAM should focus on collaboration with other ministries instead of arguing over the stewardship of strategic assets. The cost of conflict will be high not only for the DGSAM but also for the MoF in conducting its other function. All participants of the DGSAM have realised the weaknesses of the state asset users as they have dealt with officers of other ministries in managing PPPs. Several of them support the idea that the DGSAM should have more authority regarding this issue yet participant P01 views the possible resistances of the state asset users. Nevertheless, PP No. 6/2006 which has assigned a special role for the DGSAM, faces almost no significant resistance from the other ministries. Likewise, the intention of strategic asset pooling under the DGSAM could be realised in the near future.

#### *Lack of harmonious policies and coordination between central and provincial government*

The participant of company C4 is concerned about the different treatment they get from the central and local governments. The location of the CS-4 project is on areas partially owned by the central, provincial, and local governments. Company c4 has to deal with those governments individually which takes time and money (P39). His comment comes from his comparison with

the practices of PPPs for infrastructure development where there is centralised regulation and management.

To understand the tedious process, P39 explains briefly as follows:

Regarding the BMN (central government properties), we deal with two ministries, the MoF, and the Ministry of Defence. Within the MoF, we have prepared paperwork to serve two teams, the asset management team and the appraisers. Furthermore, with the Ministry of Defense, we have built good relationships not only with local officers but also with the people from the Jakarta office.

Then for the BMD, company C4 must obtain approvals from both the local and provincial government. The process is much simpler than dealing with the central government (P39).

Although there is an umbrella regulation (Government Regulation No. 27/2014 regarding state asset management), in the implementation policies, there are two different rules, the MoF rule for the central government assets, and the rule issued by the Ministry of Domestic Affairs. The MoF regulation No. 78/2017 regarding central government asset utilisation designs the procedures by which the central government utilises its assets by involving the private sector. The roles of the MoF as the asset manager and the other ministries as the asset users are defined in assessing the governance of the process and achieving optimal objectives of the state asset management (MoF, MoF 2014).

In dealing with the local and provincial governments, the private sector in CS-4 must adhere to the regulation issued by the Ministry of Domestic Affairs (MDA) (GoI 2014). In the 2016 MDA regulation regarding the utilisation guide for local/provincial government assets, there are also state asset manager and state asset user in the local context. The governor, the regent and the city major hold the highest authority for the state assets, the government secretary plays a role as the asset manager, meanwhile the heads of functional offices such as the local health and education office hold the role of the asset users (MoDA 2016).

As explained above, both regulations issued by the MoF and the MDA are the technical policies of their umbrella regulation which is Government Regulation No. 27/2014 regarding state asset management. The procedures are typical but there are different authorities that need to be approached by the private sector to seek their approvals prior to the project being delivered. 'We expect that in the future, there will be no more redundancy in the PPP process involving the central, provincial and local government', said participant P30 before the interview closed.

### *Intervention during the tender process*

In some cases, individuals who have political power or access to political power in the parliament or to high level officials in the government intervene in the tender process (P34). In the past, the intervention was frequent, and the effect has been disastrous due to the nature of long-term contracts. Participant P34 explains how severely his institution suffers financially by losing business opportunities:

We used to be assertive to that kind of intervention considering the going concern of our institution as we heavily relied on their approval in many important business transactions. It was caused by improper tender process resulting incompetent winners. For example, two companies failed to develop the contracted assets and left them abandoned. The problems were multidimensional as at that time our legal team was not capable enough to draft a fair legal contract.

Participant P34 comes from institution PSA3 in case study CS-3. The intervention she mentioned could be caused by the following factors: the high market value of the properties, the location near the parliament building, and the form of the institution as a public service agency. A public sector agency is an autonomous body allowed to manage its income and expenses independently. This autonomy could be attractive for rent seekers.

### *Lack of dispute settlement mechanism*

Referring to the first emerging theme regarding the uncertainty caused by policy changing, another issue is a matter of high concern to both participants of ministry M1 and company C1. They both believe in an internal dispute settlement mechanism set up by members of the partnerships which are the government and the private sector (P23 and P31). P23 sees the importance of the DGSAM's role as the asset manager who has discretion in regard to special and complicated circumstances as in case study CS-1. Meanwhile, P31 wants the government side to respect previous contracts whatsoever the regulation says.

In the original contract between ministry M1 and the company PC1, there are two articles related to dispute settlements which are Article 9 and Article 10. Under Article 9, all possible future disputes are to be settled through deliberation and consensus. In the case where consensus is achieved, both parties agree to bring the dispute to the Central Jakarta Court. Legal domicile in regard to all matters of the agreement is the Central Jakarta Court Clerkship as stated in Article 10.

A DGSAM participant states that their policies are legally bound by the current regulation (the MoF regulation No. 78/2014), there is no chance of deviating from the rule (P09). The MoF establishes two dispute mechanisms prior to bringing the case to the court (MoF 2014a). First, for tender related disputes among private sector candidates, the selection committee has the authority to address the disputes. Then, for disputes between contracting parties, which are the government and the private sector partner, the dispute resolution in the partnership contract becomes the main reference for the disputing parties.

### *Different rules for infrastructure*

During the initial stage of the project, under the government regulation (PP) No. 6 year 2006, there were no policies for partnerships utilising state assets for infrastructure projects. The company is required to provide two contribution payments to the government, the fixed contribution and the profit sharing paid annually. A participant gave his view regarding this indiscriminate policy as follows:

The business in the airport operator industry is not as profitable as many people might think. ... Moreover, in the beginning of the project, we still need to manage to pay the interest plus instalment of our loan. I expect the government should take into account all mentioned circumstances [the business sector condition] and provide more attractive policies, especially for infrastructure projects like we did (P30).

In the CS-4 project, the capital structure of the company is 70% from long term loans and only 30% from their own equity. The overall cost of capital for the project is 10.63%. The 700 billion loan for a 1.1 trillion-rupiah project requires a long-term contract to enable the company to cover the loan as well as the operating and capital expenses. For other infrastructure projects outside public asset management, the length of the contract could be as long as fifty years.

The concerns were heard and responded to properly by the government. In 2015, the MoF amended PP No. 6/2006 where for infrastructure projects, special conditions are offered. The type of contribution payment to the government was reduced from two into only one clawback payment. In some cases, the government could ask for zero clawback. Likewise, the length of partnership contracts for infrastructure projects could reach the maximum of fifty years and be extended. Nevertheless, not all infrastructure projects could benefit from this policy. There are only a few sectors that are allowed to gain the advantages of low clawback payments and longer contract periods. These sectors are transportation, water resources, waste treatment, telecommunication network, electricity and the oil and gas sector.

### 7.3.2 Contracting Parties

#### *Lack of transparency of the private sector partner*

By law, both the state asset manager and the state asset users are obliged to conduct guidance, supervision, and control of all state asset utilisation including partnerships with private sector (MoF 2014a). The government can assign either its internal auditors or independent auditors to perform audits on the partnership's financial reports. The audit focuses on the initial investment, periodical financial statements, and assets prior to the end of the contract. It is also stated that the partners have to respond to the audit recommendation.

A government auditor expresses his concern regarding the transparency of the private sector partner. Some partnerships seem to not fully disclose all material elements of their financial statement mostly in the cost section of the income statement. It is important for the auditor to verify the validity of all material expenses they present in the income statement as it will determine the amount of their profit as the basis for the profit sharing (P36). The auditor explains further that it is essential for them to understand the industrial norms regarding the business operation of the partnerships. This way, they can see the fairness of both revenues and costs presented in the financial statement.

As the auditor is also expected to investigate the buildings both in the early stages and at the end of the contract, they must have sufficient skills regarding building assessment (P02). The result of the audit on the initial investment will influence the percentage of profit sharing. If the value of the building is lower than the budget, the government could ask the partnerships to renegotiate the profit-sharing calculation.

On the other hand, a participant from the private sector expresses their belief that the company has the right to keep their detailed cost structure undisclosed (P31). Their production process and related cost structure are considered to be confidential as they are the sources of its competitive advantage. Due to that consideration, the participant said,

We prefer revenues as the basis of profit-sharing calculation for two reasons. First, revenues are not part of our sensitive information. They are easily traced by verifying the invoices, checking bank accounts and cash registers. Secondly, the auditors do not have to thoroughly investigate our detailed cost structure (P31).

### *Lack of commitment from partnerships actors*

The long and tedious processes of asset utilisation PPPs arise not only from complex regulations and policies but also from a lack of commitment shown by both actors in the government and the private sector. Participants P02 and P07 recognised that from the government sides, the officers both from the MoF as well as other ministries seem not to show commitment to accelerating the process. Yet there are different reasons involved. On the MoF side, once the PPP contract is approved, P02 says, ‘...the officers realise the risk they should bear in the long period of time’. Yet, some of them see no direct benefits for the institutions (the MoF) as the income received will not be recorded as the achievement of their office (P07).

However, several non-MoF actors show their lack of enthusiasm regarding asset-based PPPs. The new set of policies in state asset utilisation washes away most chances to conduct fraud and irregularities by not channelling the money from the project to the state account (P33). ‘... in the past, many BOT contracts were signed by some local officers and only a small percentage of the money was deposited to the state account. ... The contracts lasted for decades, and some contracts are still valid now’, said participant P33.

On the other side, the participants from the private sector indicate that their company in the beginning was enthusiastic to have the PPP contracts with the government because they can see the potential revenues could be generated from the idle assets they had observed (P38). Soon after they realised the process of getting the contract and expecting costs they should bear, some of actors pull back gradually. ‘... We understand that we still have to provide some unofficial payments before and after the contract is signed’, said participant P39. ‘But if the project still can give more revenues than the cost, we continue the process...’, P39 explains further.

### *Lack of expertise*

Participants P32, P33, and P34 share their concerns about lack of legal expertise in their institution’s human resources. P34 names two properties in their area which were improperly managed by the companies and her institution suffered legal battles against those two companies. Her institution has realised the importance of a legal drafting team in their squad and has acted accordingly. Internally they recruit more legal experts and externally they hire legal consultants as well.



At the state asset user, the agency is obliged to prepare feasibility studies as a requirement for either a KSP or BOT schemes (MoF 2014a). The feasibility study has to provide information and analysis regarding property, projected cash flows, the proposed fixed contribution as well as the profit sharing arrangement (DGSAM 2014a). Three participants, two from the ministries and one from the DGSAM, have identified this problem of the state asset users human resources (P07, P23 and P27). They say that the staff in the state asset users do not have the skills to conduct feasibility studies.

‘A feasibility study of the complicated nature of PPP is beyond the capabilities of the state asset users’, said participant P07. The focus of their ministries is to conduct their core function such as national defence for the Ministry of Finance, or tourism development for the Ministry of Culture and Tourism (P23 and P27). To address the problem, the ministry asks the potential company to prepare the study. As a result, the company has an advantage during the tender process as they have been involved from the very beginning of the process.

#### *The roles of a public service unit in addressing government inflexibility*

As in all the other case studies, the government officers directly involved in the PPP processes face a dilemma as to whether to follow the regulations rigidly that lead to a slow decision-making process or to be more flexible and have to provide more explanations for the future audit process. This dilemma can be avoided by establishing a special vehicle in the form of a BLU (P12, P26, P55, P32). The BLU could involve every stage of the PPP.

Government regulation no. 23/2015 provides the BLUs with more authority in conducting their activities. In CS-3 the flexibility includes the selection of the partner companies, arranging the contracts, and establishing the profit sharing rates. These authorities enable the agency PSA3 to shorten the PPP process significantly compared to its counterparts in other ministries. They do not need to obtain approval from the MoF, and also the valuation process either of property or a business valuation is conducted by public appraisers. Then based on the reports of the appraisers, the management of the agency PSA3 makes the decision. Meanwhile in other ministries, despite the regulation allowing the ministries to hire public appraisers, due to funding limitations, the valuations are conducted by the government valuers of the MoF. Then, to decide whether the project should proceed or not, the approval of the MoF is essential.

In addition, the management of the agency PSA3 operates mostly in the same way as the private sector. Participant of P32 who was in middle management, states:

The agency PSA3 is an independent agency under ministry M1. Here, most of the employees were recruited from professional backgrounds not from government institutions. The culture in our organisations in many ways are supportive of transparent and accountable business processes. The decisions must be taken immediately, or we will lose the opportunity and in the end we will not be able to pay our own salaries. The flexibility provided by the regulation gives us enough room for doing business manoeuvres to adapt to fast changing in the industry.

### **7.3.3 Impacts of the Projects**

#### *Significant support for national sport activities*

Every year the PPGBK is obliged to contribute to the state budget. In 2016, it contributed around 15 billion rupiahs, and the amount tends to increase gradually (GBK Supervisory Board 2016). In reality, the largest contribution of the agency PSA3 is not its annual fund contribution but the maintenance of and capital investment in the GBK sporting complex. In 2016, the PPGBK spent around 50 billion rupiahs for operational and capital expenditure to make sure that the sporting complex still complies with international standards (GBK Supervisory Board 2016).

As the largest sporting complex in the nation, GBK becomes the mainstay venue for both national and international sporting events. The latest largest event was the 18<sup>th</sup> Asian Games co-hosted by two cities, Jakarta and Palembang. The success of the 18<sup>th</sup> Asian Games in Jakarta in 2018 was one of the newest proofs of the role of GBK (Inasgoc 2017; Saputra 2018). ‘I cannot imagine if we do not have GBK or if the complex is not well maintained, there will be stain on our country reputation’, said participant P26.

#### *The positive effects for national and local economic growth*

Central Java is the third largest province in terms of the population, the fourth in gross domestic product in the country. Its economic activities require reliable infrastructure including in the transportation sector in land, sea and air. Prior to the development of the CS-4, air transportation in the province was able to serve up to 1.25 million passengers annually. Currently, the airport can accommodate around 4.5 million passengers where one-tenth of them are international passengers. The number of flights increased significantly, from fewer than thirteen thousand commercial flights per year into around forty-five thousand after the project was completed. In addition, the cargo that can be handled, is also multiplied by five times into 25 thousand tonnes per year.

A participant from the private sector, explained the strategic location of this airport that supports both local and national economic activities,

The city of Semarang [which hosts the airport] is located in the middle between the two biggest cities in Indonesia, Jakarta and Surabaya. Previously, goods and traffics between the capital and Semarang, must transit in Surabaya ... This city also plays a role as the connection between two major islands, Java and Kalimantan. Transportation is like the blood of a country, which delivers people and goods around the clock (P31).

The data from the Central Bureau of Statistics, in the early period after the airport has been extended, shows a significant increase of both passengers and cargo traffic in and out of the Province (BPS 2016). In 2016, when phase I of the project was just completed, the number of domestic passengers was more than four million (BPS 2016; Kodam IV Diponegoro 2014). This means that the maximum capacity of the extended airport of 4.5 million passengers, will be reached in the near future.

Likewise, participants from CS-2 (P24 and P29) claim that the project has significantly contributed to local economic growth by providing hundreds of jobs and serving thousands of its customers. The impact of the airport development on the regional gross domestic product of the province can be seen from its direct and indirect influence on the regional economic growth. Based on the direct and indirect influence, it was found that the CS-2 project influenced the regional GDP for around 0.5% (Harjanto & Woyanti 2019).

#### **7.4 The Influential Characteristics of PPPs**

From the above discussion, PPPs in the PAM context have unique attributes that can be seen from five different aspects namely motives, types of projects, payment flows, risk and the profit orientation (Table 7.4).

**Table 7.4 – Comparison of the PPP Attributes**

<b>Aspects</b>	<b>PPPs for infrastructure development</b>	<b>PPPs in Indonesian PAM context</b>
Motives	Financial resources, experience & expertise, efficiency, and value for money	The same and additional specific motives (See Table 6.1)
Projects	Economic and social infrastructure such as toll roads, ports, hospitals, schools	Mostly commercial, such as shopping centre, hotels, offices.
Flows of payments	From government to private sector	The other way around
Risks	Political, construction, operation, legal, market, economic, etc	Considerably similar
Government orientation	Not for profit (in most cases)	Profit (in most cases)

As discussed in Chapter 2, governments have different rationales for adopting PPPs and those rationales have changed from time to time. Briefly, in developing the infrastructure, the governments look for resources from other parties, efficiency, risk sharing scenarios, and the latest, value for money as the prime goal (Brinkerhoff & Brinkerhoff 2011; Hodge & Greve 2005; Hodge & Greve 2007; Yescombe 2007). The motives of PPPs in the PAM context can be seen in Table 7.1 Those additional motives are specially related to Indonesian PAM practices including the negative effects regarding kickbacks for some officers.

On one side, the benefits in forms of safeguarding their idle assets, obtaining additional fixed assets and budget allocation, have encouraged the asset users to actively propose PPPs for their surplus assets. On the other side, those circumstances also divert the focus of the institutions by allocating their time and resources to manage the surplus assets, a task which is actually not the function of their institutions (P08 & P26). That kind of task will be performed much better if it is conducted by the DGSAM as it has the resources, expertise and focus to manage assets. ‘The DGSAM should be more progressive in taking over surplus assets from the assets custodians as it has both the legal instrument and resources to do so.’, (P26). Yet, P08 proposes that:

The current policies by providing such sweeteners to the asset custodians are the best way to attract the officers of asset custodian institutions to propose PPPs for their surplus assets. Otherwise, it is really difficult to identify assets which are idle under the ministries’ custody... In the future, once the PPP contracts end, the DGSAM could take over the assets.

## 7.5 Conclusion

The chapter has mapped and discussed the motives and development of PPP adoption in the Indonesian PAM as well as the emerging themes from four case studies. Different motives have been expressed by the participants, the ultimate one is to obtain external sources of funding to develop state idle assets. In addition to that, the private sector partners are considered more capable of operating business projects as they have expertise and experience. For some parties, PPPs in asset utilisation are the opportunity to acquire or to fund off budget institutional facilities or an organisation's unofficial activities. The last motive is to get an additional budget allocation or at least to increase the bargaining position of the ministries in discussing budget allocations with the MoF.

The thesis also finds thirteen challenges and three opportunities for the PPP adoption in the Indonesian PAM. Those sixteen themes can be grouped into three namely regulations and policies, contracting parties, and the impact of the partnerships. Now the thesis can answer the second and third research investigative questions 'What are the rationales and challenges of the PPP adoption?' and 'What are the influential characteristics of PPPs to be considered in PAM?'.

In all cases, lack of government funds is the main reason why the private sector is invited to develop the idle or underutilised assets. This is true but the participants from the state asset users offer more detailed and interesting motives regarding the choice of the PPP model and business types. In the same way, besides the benefit in the form of cash inflows to government accounts, those participants also see other specific benefits that help them reduce some potential problems arising from idle assets. Above all, the participants also realise the challenges and risks that they currently face. The influential characteristics of PPP adoption in PAM are drawn from the analysis of all the above views.



## **Chapter 8**

### **PPPs in The Indonesian PAM: The Accountability Concerns**

#### **8.1 Introduction**

In the previous chapters the findings regarding the development and challenges of Indonesian PAM and the PPP adoption have been discussed. This chapter analyses the views and perspectives of the participants regarding the accountability practices. The chapter aims to address the second research question, ‘What are the accountability challenges of PPPs in the Indonesian PAM context’. In order to answer that question, the chapter examines its two investigating questions: ‘What aspects influence accountability in PPPs?’ and ‘How does transparency affect accountability?’.

After a short introduction, the six factors influencing PPPs are discussed based on the perspectives of the participants. In section three the types of accountability and its practices regarding four stages of PPPs and its monitoring system are discussed. In the same section, the six factors from section two are revisited and discussed based on PPP stages. In section four, the relationship between transparency and accountability is discussed from the experiences of the participant.

#### **8.2 Factors Influencing Accountability**

Accountability is seen differently by the participants based on their perspectives and influenced by their experiences. It was essential to know the participants’ understanding of accountability, prior to asking them further about their perspectives on accountability concerns in PPPs. It was found that on being asked the meaning of accountability, not all participants were able to answer in complete sentences. However, all could mention and explain several key words with which accountability is precepted.

The participants were asked about accountability in Bahasa Indonesia as ‘akuntabilitas’. Responsibility, transparency, legal compliance, audit, and resources are most mentioned in defining accountability. Two participants mention ‘principal’ and ‘agent’ to describe their perceptions. Other words associated with accountability were reporting, audit, public, process, and contract. The participant’s perceptions are influenced by their experiences regarding accountability in conducting their duties and by their educational background. Most participants

from the DGSAM who have a law background or whose main duties are drafting policies or regulations, cite legal compliance as one of accountability's attributes.

Once the participants are clear about accountability, then they are asked about how important the accountability of PPP is. The utilisation of public assets by the private sector becomes the main concern of the participants. In the beginning, those assets are fully controlled by the government but once the contract is signed, the government transfers its rights and authority over the assets to its counterpart, said one participant of the DGSAM (P03). He further explains that those assets are still recorded in the government's balance sheet and it is still held accountable for whatever happens to the assets. Most participants agree that PPPs bring accountability complications due to the involvement of other parties. Participant P05 says the government is obliged to make sure that the private sector acts according to the contractual agreement. 'One thing that makes this issue complicated, the private sector is an independent entity with its own rules and cultures, the way government institutions deal with it is obviously different to how they deal with other government entities', said participant P05.

Based on the PPP accountability framework (Forrer et al. 2010), every participant was given six cards showing factors that can influence PPP accountability. On every card, the explanation of each factor is provided to ensure that the participant has the same perception about the terminology. Then, they were asked to put those cards in order based on how important they believe each influence was. Those cards are risk allocation, cost and benefits, social and political impact, expertise, partnership collaboration, and performance measurement. The result can be seen in Table 8.1. Each cell indicates the number of participants who put a factor in a specific rank.

**Table 8.1 – Six Factors Influencing PPP Accountability**

<b>Ranks</b>	<b>Risk allocation</b>	<b>Cost &amp; benefit</b>	<b>Expertise</b>	<b>Performance measurement</b>	<b>Collaboration</b>	<b>Social &amp; political impact</b>
1 <sup>st</sup>	19	10	10	1	0	0
2 <sup>nd</sup>	14	11	10	3	2	0
3 <sup>rd</sup>	7	11	8	3	0	11
4 <sup>th</sup>	0	5	5	18	8	4
5 <sup>th</sup>	0	1	3	9	16	11
6 <sup>th</sup>	0	2	4	6	14	14
<b>Total</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>



From the above table, it can be seen that almost half of the participants believe that risk allocation is the most important factor in assessing accountability. Expertise and cost and benefit are also considered as the most important factors according to 10 participants each. The second most important factors look similar to the first rank which are risk allocation, cost and benefit, and expertise. Risk allocation is placed either in the first, second or third rank by all participants. In contrast, fourteen people view the social and political impact as the least important factor which is similar to the ranking of collaboration.

The purpose of this ranking is to understand how the participants perceive the key success factors of PPP accountability and individually discuss how each factor influences the policy and practice of PPPs in the nation. Risk allocation, cost and benefit, and expertise are influential in the view of the participants. This result is reasonably expected as those rankings are consistent with the keywords articulated by the participants in defining accountability. First, risk allocation is perceived as the most important factor by the participants. Several participants highly emphasis the aspect of legal compliance in defining accountability. For them, risk allocation between the government and the private sector should be the most critical aspect of a PPP since it could be viewed significantly from the legal aspect.

Next, regarding the factor of cost and benefit, the rationale could be seen from the underlying problem of the Indonesian PAM, namely surplus and underutilised assets. Most participants from the DGSAM consider that by providing proper cost benefit analysis, PPPs could be promoted further in asset management practices. Last, the expertise factor is also essential because the participants realise the government has no skilled staff both in terms of quality and quantity to utilise the assets. The following sections will discuss findings regarding each accountability factor from the perspectives of the participants.

### *Risk allocation*

The current technical guidance for the DGSAM's business valuers in assessing proposals for state asset utilisation partnerships also puts risk borne by the private sector as one of the most significant (DGSAM 2014b). The guidance states that in determining the amount of money the private sector partner needs to pay the government, the valuer must take into account both financial and business risks carried by the private sector partner. The valuers benchmark those two risk types against industry practices.

Business risk arises from the ability of the private sector partner in generating revenues to cover all expenses plus to pay their obligation to the government (P15). The participant P15 argues further:

Business risks can be lowered by selecting experienced private sector partners. Meanwhile, all risks related to the capital structure of the project funding is categorised as financial risk. The government must evaluate the financial resources of the bidders ... to make sure that they will not heavily rely on debt in financing the project.

It is mentioned in the MoF regulation that once the government can identify risks borne by the potential partners, through a feasibility study conducted by an assigned team of valuers, the government then issues the fixed contribution and the percentage of profit sharing for KSP type partnerships. In the case of a BOT partnership, the valuation team recommends the annual contribution as well as the percentage of the building and facilities that the government can use at the beginning of the contract. Both the certain amount of money and percentages are the minimal figure asked for by the government. In the tender process, the bidders will increase their offers in their acceptable price range and therefore the maximum offer is expected to occur and benefit both the government as well as the winning party.

Besides the risk borne by the private sector partner, in determining the benefits for the government in the form of cash payments or facilities, the government considers the investment value from the partner as its contribution to the partnership and compares it with the value of the asset as the government's contribution (MoF 2014a). In the more technical regulation of the DGSAM, thereby, the government assesses the competitive rate of return for the private sector partner by considering their investment value, risks borne, and industrial practices. Regarding this concern, participant P15 gives an example, if the partnership operates in an office rental industry, the rate of return in the industry becomes the benchmark for the government's valuers in calculating the partner's expected return from the project. In short, there is a balance between the contribution asked by the government and the expected return of the partner (P15).

Even though in both the MoF and the DGSAM regulation, force majeure is not mentioned, it is clearly stated in some contracts obtained during the research. In circumstances of force majeure, both parties are released from their responsibility on the failure to fulfil their obligations. A drastic change in government policy can be categorised as force majeure.

The failure to provide a fair risk allocation between the private sector partners and the government will reduce the accountability of the partnerships in several ways. The same participant (P15) explains that if the government asks for the contribution to be more than it

should be, adverse results can occur in every stage of the partnership. In the set-up process, the number of companies interested in the tender process will decrease. As experienced companies refuse to apply, the only companies competing will be the mediocre ones. The worst is yet to come, as participant P15 explains:

In the construction stage, to minimise its capital expenditure, the partner will lower the material quality... It means, the government will suffer the consequences of having to renovate or reconstruct the building. ...In the implementation or operating phase, as the partner is required to pay a contribution that is more than they can afford, they eventually will manipulate the report for example by understating the revenue and overstating the expenses.

### *Cost and benefit*

The cost and benefit and the expertise factors have the same number of supporters as the most influential elements of PPP accountability. Ten participants believe that cost and benefit analysis builds a strong foundation of all PPP projects without which the projects do not have the viability to continue under the partnership arrangement (P06). Another participant(P23) thinks that even though the benefits of PPPs are apparent by providing facilities the government could not afford the cost, especially as the complicated relationship with the private sector partner, can be significant and may overcome the benefits. The government should exercise other options to fulfil its need to support facilities by developing its idle assets (P36). A short-term solution for an agency requiring office space is by renting until the circumstances become more favourable for PPP projects (P06).

However, in asset-based partnerships, the understanding of cost and benefit analysis deviates from that of infrastructure partnerships. The benefits of PPP projects have been identified in Chapter 6. In the existing PAM practice, the cost analysis of entering a PPP contract differs from one project to another. However, in general, the cost can be categorised as an agency related cost and a broader cost as the national interest. If the projects are directly related to the main function of a government agency such as in CS-1 and CS-3, the cost analysis includes opportunity cost if the agency chooses alternatives beside PPPs.

In CS-1, ministry M1 desperately needed additional office space, as the government added more duties and personnel. The opportunity cost, if the ministry rents office spaces somewhere else instead of constructing a new building through a PPP arrangement, includes renting cost and coordination difficulty as the location of the rented office is not nearby (P36). In the short run, renting looks promising for ministry M1, but it puts a significant long-term burden on the

ministry's budget, said P36. The cost of PPPs is dynamic as can be seen in CS-1. Due to the government changing policy and contract complication problems, ministry M1 has not fully earned the benefit of PPPs (P36).

In CS-3, the agency PSA3 is an independently funded unit that works for the government as the intermediary between the government (ministry M3) and the private sector, participant P33 explains. The main source of its revenues is PPP projects. At the end of the contract, the building will be transferred to the agency PSA3 and it can be developed to generate more revenue. Learning from experience, the agency PSA3 spends more to strengthen the contract to make it favourable to their interests and this is considered a significant cost. However, the benefit, according to P34, goes far beyond the cost.

In CS-2 and CS-4, the core businesses of the partnership projects are not related to the main function of the asset custodians. The projects become of national interest or at least regional interest for economic development. Most benefits from these two projects go to the society, neither ministry M2 nor the M4. Yet, both ministries M2 and M4 have invested their human resources considerably to make sure that the projects run well (P27 & P24). Therefore, it is believed to be fair that there are some benefits to the agencies in the form of additional assets and financial support provided by the private sector partner to the government. Participant P24 states:

The partnerships project must give us (his institution) support because the budget provided by the government is far from sufficient .... The supports could be in forms of fixed assets or funding depends on our situations. We have supported the projects by letting go our assets for a very long period and take care of the administrative process dealing with other parties.

The statement of participant P24 is confirmed by participant P29 who is from the private sector partner as he says that the relationship is mutually beneficial for the continuity of his company's business. All related expenses could be categorised as company social responsibilities as most of them support the social activities of the government agency such as the national independence day celebration and free medical treatment for the poor, he added.

The relation between cost and benefit analysis and PPP accountability can be seen in the initiation and implementation phases. From a much broader national perspective, the utilisation of public assets is expected to bring more benefits than costs but the asset custodian sometimes has their own interest (P01). When both national and agency interests are satisfied, accountability is probably not an issue. However, when the parties have different interests, the accountability of

the PPPs could be questioned (P09). The role of an asset custodian in a PPP is to supervise and monitor closely the private sector partner's activities, to make sure that the partner sticks to the contract, she explains further.

### *Expertise*

The expertise factor is perceived as the most and second most important in assessing PPP accountability by ten participants each. Participants P21 and P22 realise that the government does not have sufficient human resources in terms of quantity and quality (skills) to operate the projects by themselves without involving the private sector. Participant P21 says that besides access to financial sources, expertise is the second factor the government most expects from the private sector partner.

In relation to accountability, participant P34 emphasises that expertise is required not only from the private sector partner but also from the government officials. The latter must have sufficient knowledge of both legal and business aspects of the partnerships. This is crucial to make sure that the private sector do not have the upper hand due to the government's lack of knowledge of PPP legal contracting, said participant P34 as she referred to her institution's experience in contract drafting. When both parties have expertise, the monitoring function can be effectively conducted (P34).

Current regulations already set up the criteria for potential private sector partners who want to enter the competition in the bidding process (MoF 2014a). The regulation requires the potential private sector partners to fulfil two criteria which are administrative and technical requirements. The administrative requirements are that the applicant is an incorporated company with a valid recommendation from the tax office, and it has to provide a bidding document with all supporting documentation. Meanwhile, the technical requirements say that the applicant has to be legally competent, not been included on the government blacklisted companies, has a valid and permanent address; skills, experience, managerial and technical abilities, and human resources, capital, equipment, and the other facilities required in conducting the project.

The requirement set by the regulation is sufficient as the first filter to make sure that only formally qualified companies can apply (P21). However, the next process of administrative and technical verification is more important. Several PPP tenders in the past were conducted by a procurement team without sufficient knowledge of the characteristics of partnership contract or the business process and operation of the projects (P21). In addition, by law all the tender processes are

conducted by a procurement team established by the state asset user and can include other parties who have competency on the project being tendered.

An interesting fact comes from participant P07 that many DGSAM staff including himself avoid involvement further once the approval has been issued by their institution. This is because they do not wish to take any unnecessary risks. Prior to the tender process, the DGSAM handed over its approval altogether with the minimum payment required by the government both for KSP or BOT projects. For KSP projects, the state asset user has full authority to conduct the tender without involving the state asset manager even though by law, they can invite expertise from any parties including the staff from the state asset manager institution. Participant P07 explains:

The DGSAM as the state asset manager must fully involve in all PPPs utilising high value assets or having complex business operations. As the DGSAM has skilled personnel, it should conduct a highest and best used (HBU) analysis to all surplus or idle assets. The HBU analysis delivers the most appropriate project to be developed.

The relationship between expertise and PPP accountability is explained by an auditor participant (P39). Private sector partners with high expertise will most likely increase the quality of building construction in the early phase of the contract, and during the operational phase, they are expected to generate more revenues or to reduce the expenses. The participant P39 says, ‘the probability of success will be higher with proper supervision and monitoring as it can prevent them using their expertise to cheat the government’.

### *Performance measurement*

Although only one participant (P03) picked performance measurement as the most influential accountability factor, there are still six participants who believe that this factor deserves to rank 2 or 3. As mentioned in Chapter 5, the government currently does not have an asset performance measurement system. In public asset utilisation using PPP schemes, there two main concerns of the government: the contribution payment from the private sector partners and asset maintenance (P03). Therefore, ‘the performance measurement should target those two government interests’, said participant P03.

The current policy requires private sector partners to prepare three types of reporting, two are one off, one periodical (MoF 2014a). The first one is at the beginning of the contract just after they complete the construction. The objective of this report is to indicate the factual investment expenditure for which an audit will be conducted. The difference between planned and factual investment will change the contribution payment. The second report is an annual financial

statement which is used to determine the amount of profit sharing for the year. The last report is prepared two years prior to the asset handover to the government. This report presents the current condition of the assets which the auditors will verify and give some recommendations to make sure the asset is still worthy at the end of the contract. Those audit processes can be perceived as the government's effort to measure the performance of the private sector.

Participant P03 says that in the operational or implementation phase, the DGSAM do not conduct direct monitoring of the PPP projects but receive reports from the projects through the state asset users not in an individually detailed report. Although the report is audited by the government internal auditors, participant P03 is still not convinced by the audit's independence as the auditors come from the same ministry as the custodian agency. His doubt about independence is in line with the view of participants P38 and P36. Participant P38 says:

There could be a better alternative to involve the government auditors from the BPKP or the MoF in auditing partnerships projects. It is expected, the auditor will have broader perspective to audit a range of business types of state asset utilisation'.

Raising the idea, participant P03 would require the MoF to establish a performance measurement system that could show projects effectiveness and efficiency. The results should be comparable both with its own past performance or with other projects.

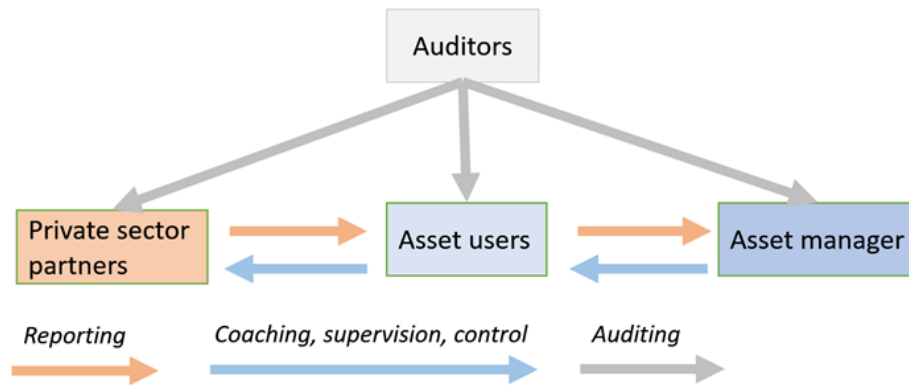
### *Collaboration*

No one thought that this factor was the most important of the other five yet two participants view collaboration as the second most influential factor in accountability (P25 and P27). That the inflexible regulations require good relationships between partners to address obstacles is the reason given by participant P25. As the asset custodian, it is the duty of participant P25 to communicate with the private sector partner in conducting supervision and controlling as required by law. Therefore, collaboration is very important.

Most routine problems can be solved internally within the asset management division in ministry M2 but for more complicated situations, the problems are raised to the higher level. 'We have a forum to discuss complicated issues related to our assets including the asset utilisation', said participant P25. The forum consists of the representative of the private sector partner, asset management staff of ministry M2 and its legal staff. When the problem is not clearly regulated by the current policy, there will be tripartite discussion: the state asset user, the DGSAM, and the private sector partner (P25). Then, participant P25 explains further:

Most complicated problems happen in the initiation and set up phases ... because at those phases we construct feasibility studies, verifying applicants, select the winner, and monitor the construction process. At that time, the role of the DGSAM is required more than ever.

**Figure 8.1 – The Communication among the Actors**



Source: (MoF 2014a)

The communication flows between actors during the implementation phase of the partnerships can be seen in Figure 8.1. In almost all KSP schemes, the assets are under the control of the state asset users, and in this circumstance, there is no direct communication between the private sector partner and the state asset manager or the DGSAM. Therefore, the state asset user has the role as the centre of communications, meanwhile the DGSAM provides advice whenever necessary (P10). If new problems arise and are not regulated yet in the current regulation, the DGSAM will issue new policies to address the issues.

To see the relationship between collaboration and PPP accountability, participant P25 says that he maintains effective communications with all stakeholders to build trust between the partners and as a result, is able to see the problems clearer. ‘We will address the issue as soon as possible before it gets worse’, said participant P25.

#### *Social and economic impact*

Even though the factor of social and political impact could be seen as the least important compared to other factors, it does not mean that this factor is not relevant to PPP accountability. Several views show that PPPs in the PAM context also have significant impacts on the social and political aspects of the country. However, instead of voting for the social and political impact factor, participants from CS-2, CS-3 and CS-4 explain the social and economic impacts of the projects in which they involve (P26, P29. P33).



Participant P26 who is from CS-3 describes how the project influences the social aspect of the society both locally and nationally. He says:

Both international, regional, and national sporting events have been held there (in the GBK). ... The public give their opinions about our facilities, from the structures ... to small things such as toilet facilities...are under the spotlight. The way we manage the GBK complex will determine the quality not only the sporting facilities but also the office and business areas in the complex.

Another participant from CS-3 adds her perspective that the football stadium with the seating capacity of 78,000 is often used for major political campaigns as in the last 2014 presidential election (P32). It means that all top political leaders and government officials are users of the GBK complex. 'It makes us more excited on the one side, but feeling under pressure on the other side', said participant P32.

The CS-3 also has a large impact on the economic activities of the province. The total employees of the agency PSA3 itself are more than three hundred as found in its annual report. Around thirty large companies have various business contracts including BOT, land lease, facility lease, joint operation, and advertisement spaces. 'It means thousands of people work in this complex to make a living', said participant P32. Types of properties in BOT contracts are also diverse from hotels, shopping malls, offices, and leisure, sport, and recreation centres. The performance of the PPGBK will impact the quality of all those business venues.

Likewise, as the CS-4 is the only commercial airport in the province, its service delivery has a high social impact. Participant P30 says that the public has expected more since the airport extension project has been partially operating but that is not a really big pressure for the company. This is because the company has established standardised service operations for all airports under its management (P30). 'Yet public service awareness is another important measure to control our service delivery', participant P30 recognises.

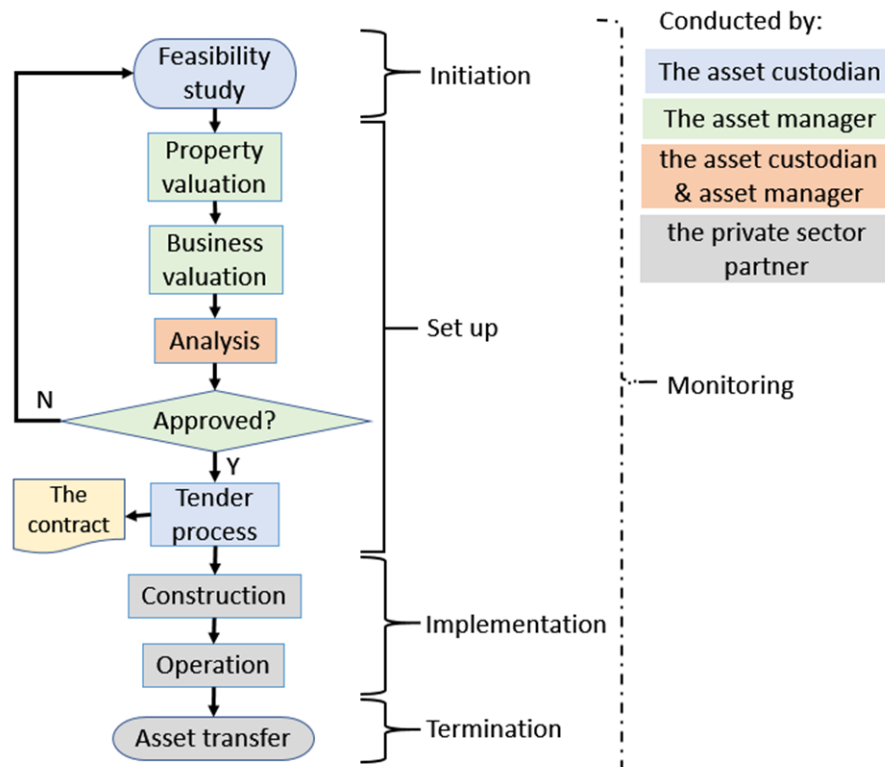
Another example of social and economic impacts is shown in CS-2. The mall was the pioneer in the region. In the beginning of its operation in 1998, the CS-2 encouraged local economic activities. It changed how the local people shopped from traditional markets into a modernised shopping centre, as mentioned by participant P29. At that time, the local people came from middle to lower classes in terms of income per capita. Therefore, as part of its company is social responsibilities, the private sector partner allocated some of its income to M-2 for social services.

The high social and economic contributions of partnerships projects have positive impacts on the way the private sector partners operate and increase the quality of their service delivery. The public pay more attention to both physical and service quality from the facilities whether in the form of a sporting complex, a shopping centre, or an international airport.

### 8.3 Accountability Concerns in PPP Stages

In this section, the participants' views regarding PPP accountability are discussed further by including one additional circumstance in which accountability forms as well as factors are being analysed and ranked accordingly. As discussed in Chapter 4, there are different types of accountability forms based on different contexts. For the purpose of matching different accountability forms to different levels of PPP phases, in every phase the participants were asked from their experiences and knowledge what activities they conduct and to whom for what the actors must account.

**Figure 8.2 – The Stages of Property Based PPPs**



Source: MoF (2014a)

There are five stages of PPPs analysed namely initiation, set up, implementation, termination, and internal and external monitoring as can be seen in Figure 8.2 (GoI 2014). The initiation stage is conducted by the asset custodian. In all four case studies, the asset custodians are the state asset users. Once the asset custodian has submitted the proposal, the state asset manager conducts valuations, and joint analysis. If the proposal is approved, the asset custodian holds a tender process to select the winning party. That is the end of the set-up stage. At this point, the private sector partner takes over the responsibility. They start construction, running the business until the end of the contract.

The internal and external monitoring is conducted through all stages. In each stage, the practices of actors are analysed through the lens of various accountability forms such as legal, communal, contractual, managerial, and parliamentary accountability (Demirag, Dubnick & Khadaroo 2004). Then, the six accountability factors as discussed in the previous section are taken into consideration in the analysis. This is to understand what factors affect accountability in every stage of PPPs.

### **8.3.1 The Initiation Stage**

The types of projects are determined in the initiation stage. Officially, the main actor in this stage is the state asset custodian who could be the state asset users or the state asset manager. According to the regulation, the asset custodian alone decides what type of business they will develop on their idle properties. However, in real life experience, the asset custodian involves potential private sector partners to conduct feasibility studies. As discussed in the previous chapter, the state asset user does not have the personnel, skills or financial resources to conduct such comprehensive studies.

#### *Legal and communal meets professional accountability*

In the very beginning, the trigger of asset utilisation in general and PPPs in particular is the existence of either surplus or idle assets or underutilised assets (GoI 2014). Those assets could be under the custody of either the MoF as the asset manager or other ministries as the asset users. The other ministers have two options regarding their idle assets: hand them over to the MoF or utilise them.

As stated by the regulation, in the initiation stage, the state asset custodian is required to conduct feasibility studies to determine the best use of assets. In doing so, the asset custodian tries to find

the most suitable business type to develop on the site by considering the needs of its own organisation, the surrounding society, financial feasibility, legal permissibility, and the availability of potential investors (P03, P18, P23 and P27).

In the case study CS-2 for instance, participant P29 explains further the consideration of choosing to build a shopping centre on the site.

At that time, in the area, there was no modern shopping centre. And from the projected business cashflows, the potential investors saw the project was prospective in the long term and they believed that the investment would be fruitful. The potential return would be enough to cover their initial investments and some profit margins.

On the other words, the legal consideration of the state asset users meets with the profit motive of the potential investors. Nevertheless, the legal aspect is not the only consideration of the state asset users. As discussed in the previous chapter, the officials of those institutions had other motives. There was no proof that they got personal kickbacks, but their institutions obtained assets from off budget sources which, sector partner as can be seen from the contract.

The current regulation has set up guidance for both the asset custodian and the asset manager as follows. In the initiation stage, the asset custodian conducts a feasibility study to analyse what type of project will be developed, how many years the project will last, and what benefits and costs the institution will incur. In addition, the asset custodian is required to propose the contribution paid by the private sector partner to the government. The amount and percentage of the contribution is determined to reach a situation where the government is fairly compensated for the use of its asset, and the private sector partner gains a normal profit to return its investment to the project.

#### *Risk and cost and benefit*

Once the asset custodian decides that they will invite private sector partners to utilise their idle asset, the first analysis they conduct is the cost and benefit analysis, said participant P27 of the state asset user institution. ‘The benefits will go to the nation and also for the institution of the asset custodian. The benefit for the nation is in forms of revenues and economic activities ...’ said participant P27. The benefit that becomes the motive for the asset custodian has been discussed in Chapter 6. Once they find that the benefit is larger than the cost, the profit sharing or the contribution for the government is calculated with one concern that the private sector partner will have enough return to cover its risk (P27).

According to participant P06 who comes from the DGSAM, in conducting the feasibility study, the asset custodian comes to a decision whether the benefit of a partnership overcomes the cost. Once it is considered that the project is feasible for government interests, the study analyses the risks that will be borne by the private sector partner and calculates the appropriate return for them to fairly cover their risks.

### *Expertise*

Skill, knowledge and experience are essential for the asset custodian if they want to prepare a good feasibility study which is supported by valid historical and current data, strong assumptions and convincing projected cash flows (P21). Otherwise, the study will not provide useful information as to whether to continue or to stop the project initiation. Participant P21 continues his story:

I strongly doubt the asset users have all the requirements to construct a reliable feasibility study. ... I give you two extreme examples. A ministry sent us a very comprehensive feasibility study of an oil and gas project to utilise its asset. And the same ministry also supplied us the worst feasibility study I have ever seen.

In the first example, the ministry hired an oil and gas consultant from a well-known university who was obviously not paid by them and the second one indicated the real quality of their human resources, said participant P21. The argument of participant P21 is justified by a story told by participant P24 who blamed the current regulation requiring his institution to prepare such a complex study. 'We are trained to go to war, not to prepare an economic analysis report', he added.

### **8.3.2 The Set-up Stage**

The second stage of PPPs is mainly the domain of the DGSAM as the state asset manager with a proposal of a feasibility study as the input and the approval or rejection as the output, followed by a tender process held by the asset custodian to select the most capable and trusted company as the private sector partner (see Figure 7.2). For analysing all the information, there are three teams established by the DGSAM to conduct the property valuation, business analysis, and a comprehensive analysis. The output of the first team is the market value of the government properties to be used in the partnership project. The second team, based on the input of the first team, analyse the financial and the business aspect of the feasibility study from the asset custodian. The outputs of the business valuation team are a decisive statement as to whether the

project is feasible and a recommendation regarding the contribution payment to the government if the project is feasible.

The final analysis is conducted by the joint team consisting of both the state asset custodian and the state asset manager. The team analyses and compares information about the property market value, the business analysis, and the feasibility study from the asset custodian. This team has much greater authority than the other two teams, as it can reject the recommendation from the business valuation. The joint team has never disapproved such a recommendation, but the team can change the amount and percentage of the contribution payment (P16). The output of this team is a recommendation to the chief of the DGSAM to approve or to reject the asset utilisation proposal, with the minimum amount and percentage of the contribution payment attached.

Participant P16 describes the obstacles in this set up stage as follows:

If all required documents are complete, both property and business valuation report will be ready in less than three weeks. Then the joint team can finish its job in one or two weeks. The situation will be much different if the documents are not fully provided, the valuation team do not get access to property, and the members of the joint team do not reach consensus in making a decision.

For a sensitive asset utilisation proposal, the chief of the DGSAM usually requires a considerable amount of time to make a decision (P16). He gave a case as an example, due to the decision not being made for more than six months, the property market value provided by the valuation team expired. The valuation had to be redone, not only the property valuation but also the business valuation. Changing the property value information changed some aspects of the business valuation. Finally, after three property valuations, the proposal was approved so then the asset custodian could arrange a tender to select the winner.

#### *Managerial and contractual accountability*

The processing times for CS-1, CS-2, CS-3, and the CS-4 were no different to the sample case provided by participant P16. This indicates that there could be issues regarding managerial accountability within the DGSAM internal decision-making process. Participant P16 thinks the role of the DGSAM in the set up is not as crucial as many actors believe. He further says:

The DGSAM gives a go/no go decision to answer the proposal from the asset custodian, however, once an approval is rendered, the asset custodian takes back the control for almost all of the next process. It is the asset custodian who engages in the risky and tedious tender process. They are also the party who signs the contract as the representation of the government.

The process in the DGSAM looks complicated because it involves three levels of chains, starting from the property valuation, business analysis and joint team analysis before it comes up with the last decisions. The output of one team becomes the input of the following team yet the joint team seems to have the ultimate recommendation given to the chief of the DGSAM. Any problems in any of those chain processes will obstruct the entire process of decision making (P16).

From the perspective of the asset custodian, the critical point in the set-up process is to select the appropriate bidder, then to sign the contract. The contract becomes the reference for targets, processes, obligations and rights for the government represented by the asset custodian agency and the private sector partner. Both parties are accountable to what the contract says. Participant P27 confirms the finding by saying, ‘The objective of all processes starting from the feasibility study and obtaining the approval from the DGSAM is the contract signing’.

To sum up, there are three parties involved in the set-up stage: the DGSAM, the asset custodian, and the private sector partner. The accountability practice in the DGSAM is managerial accountability where all processes involve only government officials, but they come from different divisions with different responsibilities. Meanwhile, for the asset custodian and the private sector partner, the relationship between those two parties is contractual accountability as it is written on the contract.

### *Expertise and collaboration*

In the DGSAM, the three internal processes as can be seen in Figure 7.2, require highly skilled staff with experience in order to deliver valid and reliable outputs. The skill of property appraisal is needed by the first team, meanwhile expertise on financial and business projection is essential for the second team. The last team must excel in analysing information from different sources namely property market values and business valuations, and then put them together in the context of asset utilisation. It is clear that expertise is the influencing PPP accountability factor for the DGSAM in the set-up stage.

It may be true that the DGSAM staff is skilled and expert in valuation and property management, but its role looks limited in stage two of the PPP process. In addition, the DGSAM as the asset manager has the authority to have more participation in PPPs by utilising its resources from the very beginning of the process which is the feasibility study. This phenomenon will be discussed in greater depth in Chapter 8.

From the perspective of the asset custodian, the longevity of their asset utilisation depends on how the DGSAM responds to the proposed feasibility study (MoF 2014a). Both participants P25 and P27 say that they spend significant time and human resources dealing with the DGSAM procedures to respond to their proposal. Participant P27 says:

We must be able to convince all those three DGSAM-established teams by providing any documents required. Even though they conduct the same procedure over and over again (repeating valuation process), we still need to cooperate with them.

The analysis above shows that collaboration is the influencing factor for the asset custodian. The DGSAM and the asset custodian are required to collaborate to increase their accountability in second stage of the PPP process.

### **8.3.3 Implementation Stage**

Once the contract is signed, the partner can start the construction and then begin the operation or production. Communication flows between the private sector partner, the asset custodian, and the state asset manager as has been shown by Figure 8.1 and described in Section 8.2. The implementation stage represents the longest time frame of the whole contract period which is the most crucial in the perspective of the partner as it is where all revenue streams occur.

#### *Managerial and contractual accountability*

The duty of the partnership, especially the private sector partner as they are the ones who control the asset, is to utilise the resources to deliver products or services and get the revenues. From the perspective of the private sector partner, the challenge is to effectively and efficiently manage the resources so that they can maximise the return (P28).

Participant P02 believes that even though the implementation stage has the longest time frame compared to the initiation, set up and termination stages, the accountability practice is not as complex as in other stages especially from the perspective of the DGSAM. ‘The asset custodian has more of a role to conduct coaching, supervision, and controlling of the private sector partner’s activities. While the DGSAM gets the report from the asset custodian’, says participant P02.

The PAM law requires an audit conducted soon after the construction is completed (MoF 2014a). The purpose of that audit is to verify the conformity between the erected building with the specifications as promised on the contract by the private sector partner. Another building audit is also conducted two years before the end of the contract. The second facility audit aims to make



sure that if some structural damage is found, the partner still has enough time to renovate it and then hand over the building in pristine condition.

As discussed above, it is clear that in this stage, the accountability practised by the private sector partner is mainly managerial as they exercise their managerial skills to achieve a pre-set rate of return. Meanwhile, the state asset custodian emphasises the contractual accountability practice because their main concern is to make sure that the construction quality complies with the contract. Besides the annual contribution, the private sector partner expects the building they will receive at the termination, still has a lengthy useful and economic life.

#### *Risk, expertise, and social and economic impact*

From the perspective of the private sector partner, the risk, expertise, and social and economic impacts influence their accountability practices in the following ways. Fair risk allocation provides situations conducive to the partner obtaining a normal return on their investment. Participant P28 believes that fair risk allocation means that the contribution paid by the partner is appropriate not overstated nor understated. 'Trust will grow in the relationship between those partners as the sound business practice is encouraged', he explains the reason further.

Nevertheless, if the private partner does not have expertise, they are still not able to generate revenues. The question whether the tender process has selected a qualified winner is answered in this stage. In case study CS-3, participant P33 shares her critical experience of selecting an underqualified private sector partner and the problem got worse due to lack of legal expertise in her institution.

Likewise, the social and economic impact of a project is important in this implementation stage as can be seen in case study CS-2. In the early period when the competition was not high, case study CS-2 delivered significant social and economic impact to the local society and in return the profitability of case study CS-2 was positively influenced (P29). The accountability practice also gets better when the local society as the project external stakeholder pays attention to the service delivery of the project.

#### *Collaboration*

As can be seen in Figure 7.1, the state asset custodian is centred between the private sector partner as the source of information, and the state asset manager as the user of the information. Concerning its role as the intermediary, good communication should firstly be built by the state

asset custodian (P27). ‘We hold a routine forum inviting the private sector partners and the DGSAM representative even when there were no urgent problems, the forum is still held to build a rapport among us’, said participant P27.

#### **8.3.4 Termination stage**

Most PPP contracts have a 30-year period, effective after the contract is signed. As mentioned, two years prior to when the contract ends, a facility audit is conducted as required by law (MoF 2014a). Under the same regulation, it is stated if the government does not alter the use of the property for other purposes, the partnership contract can be extended for the same partner. It is not explicitly mentioned whether the terms and condition change but given that both land and the buildings belong to the government after the asset transfer, the amount and percentage of the contribution must be adjusted, as a valuer participant said (P15).

##### *Managerial accountability*

As the DGSAM is a relatively new organisation established in 2006, until recently no information was to hand about PPP contracts reaching the termination period nor information about the procedures regarding assets being handed over without disrupting the operation of the business. When this happens there will be a problematic situation as the existing private partner still operates the asset.

Given a scenario, a PPP project operating in the hotel industry has reached a terminal point. The government has no intention of extending the current partner contract for whatever reason, but it still wants to continue the business operation of the asset as a hotel. The hypothetical question is how does the government take over the assets without disrupting the operation of the hotel? The participants say that currently no policy has been set up nor even drafted to address such a situation. A valuer participant (P20) suggests that, a tender must be called for months or years before the existing contract ends.

There is also the risk of getting a low-quality asset handed over by the private sector partner. The current policy has mitigated this risk by conducting a building audit two years before the terminal point (MoF 2014a). Once asset damages are found, the auditor will give some recommendations whether to just renovate for minor impairments, or even reconstruction for major deconstruction. The worst-case scenario is when the building has structural damage so total destruction is the more viable option (P12).

The above findings demonstrate how the government manages two possible risks arising during the transition period of the termination stage. Lack of experience can be mitigated by analysing multiple scenarios and then managing the resources accordingly.

### *Collaboration*

The termination stage is crucial to make sure that all contract-promised assets are handed over to the government. A long-established good relationship between the government and the private sector partner will be very useful. As mentioned above, in the case where the contract will not be extended, there will be a feeling of not wanting any more involvement in the transfer process (P26). One case of a not smooth asset transfer is mentioned by participant P26. He says, ‘When the contract ended, the private partner seemed not to want to share information regarding the asset to be transferred’.

### **8.3.5 Internal and External Monitoring**

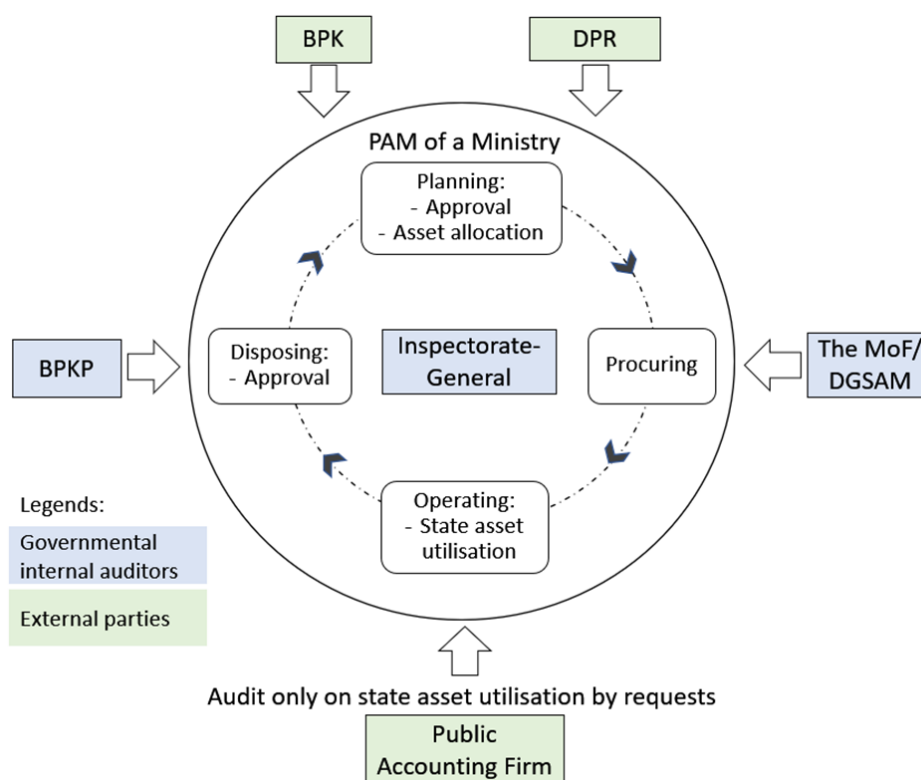
The DGSAM as the state asset manager has a role to perform monitoring of and control over how other ministries as the state asset users manage the assets under their custody (MoF 2012a). The monitoring and control target both administrative and physical aspects of asset management in the ministries. The result of the monitoring and control can be followed up by placing sanctions on the faulty ministries/institutions. One type of sanction is by postponing all proposed state asset utilisation, asset transfer, and asset disposal (MoF 2012a). However, this type of sanction is not effective and can backfire on the sanctioning institution as discussed in Chapter 6 (P17).

There are four audit institutions that by law can conduct audits on the PAM of a ministry. First, the inspectorate-general of each ministry has the authority to audit the public assets in their own ministry. Next, the Development and Finance Comptroller (the BPKP) is the Indonesian national internal auditors’ body. The BPKP conducts audits as requested by the MoF as part of monitoring and controlling activities. Third, the BPK, this high state institution is given the greatest authority to perform audits on all governmental bodies both in the national or sub-national governments (GoI 2006b). The last group is public accounting firms. The first and the second institutions can perform different types of audits such as compliance and performance audits, depending on the circumstances. Meanwhile, public accounting firms can conduct audits in state asset utilisation but only by government request.

Another supervisory body is the House of Representatives (DPR). The DPR forms an asset standing committee for each ministry/Institution. The committee conducts monitoring and consultation regarding asset management in a ministry (P40). This is an ad hoc taskforce that is established for specific purposes.

Figure 8.3 presents how both internal governmental bodies (Inspectorate-General of each ministry, the DGSAM, and the BPKP) and external (DPR and the BPK) conduct audits or monitoring on the PAM activities of a ministry. Internal accountability refers to the relationship between the ministry as the accountor and three agencies: the DGSAM and the BPKP as the account holder. Meanwhile the external accountability is how the ministry justifies its behaviour to the government external bodies which are the public accounting firms, DPR and the BPK. Meanwhile, the internal agencies of the ministry answer to their own inspectorate general.

**Figure 8.3 – Monitoring, Controlling and Audit on PAM of a Ministry**



Source: (GoI 2006b; MoF 2012a)

#### 8.4 Opaque Transparency as a Part of Fraud Targeting Accountability

On being asked the definition or keywords of accountability, eleven out of forty participants mention transparency as one element of accountability. The other words which with transparency

describe accountability are responsibility, legal, reporting, and audit. More than half of the DGSAM participants mention a legal aspect as part of accountability. One DGSAM participant views three aspects of accountability namely responsibility, transparency, and the legal aspect (P04).

In the previous question regarding the problems of current PAM, many participants believe that the current policy and regulations are too rigid to address the current challenges of PAM development. An investigative question was asked every participant to seek their disposition toward performance and legal compliance. The answers from government participants are not surprising as the majority of them will choose compliance over performance. In contrast, their counterparts from the private sector confidently pick performance over compliance as long as it is not categorised as a criminal act.

There is a paradoxical situation when the participants believe that some parts of the regulations prevent them from achieving a higher performance result, but they still tend to choose compliance over performance. Participant P03 gives a strong argument regarding the situation, with a legal background, he explains as follow:

There are two principles of law enforcement namely the principle of legal certainty, and the principle of legal justice. The former is not difficult to prove, as long as the action is not different with the text of the regulation, the actor cannot be blamed nor punished. Meanwhile, the latter in many cases is really difficult to justify.

Another participant still from the DGSAM but from a lower management level gives a real-life example of a dilemma in managing public assets. Once, there was an article mentioning that the lowest selling price of a state asset was its taxable value (NJOP). The NJOP is a property value determined for the purpose of property tax matters. Compared with market value, in the city areas, NJOP is usually lower than the market value. However, in unusual circumstances, the market value could be much lower than the NJOP.

His institution is given a portfolio of several apartment properties whose market value is lower than the NJOP. The DGSAM's duty is to sell the properties to release the state from paying high annual service charges for those empty apartments. The dilemma for the DGSAM is whether to sell the properties even with the selling price lower than their NJOP. If they are sold, the proceeds will go into the state account, and no more maintenance expenditures will be paid. Yet, the consequence is, the decision will be scrutinised by auditors or even worse by the state prosecutors. If the officer fails to convince the auditors or the prosecutor, he will be charged with corruption even if he has never accepted any kickbacks. If he can make a strong argument that

convinces the auditor/prosecutor, he will be released from any charges. The participant quotes a popular saying among officers of the DGSAM, 'It is better for doing nothing rather than doing something but accused of doing bad thing'.

The decision taken was not to sell the properties at the market value but to keep the portfolio unchanged. Then the institution proposed to amend the regulation to allow selling assets under the NJOP as long as it was higher than or similar to its market value. The effect of the decision was that the maintenance cost burdened the state budget for several years as the amendment process for high-level regulation takes a considerable amount of time and effort.

An auditor, participant P38 responds to a question regarding valuation methods. He says, 'In valuing a state asset, the valuer should choose a method that will deliver a high market value for that asset'. In the valuation standard and practices, where there are options for valuation methods, the valuer chooses a method based on his professional judgement regardless of the market value generated (IVSC 2013).

In regard to the question of whether the participants of the DGSAM are convinced that the reports delivered by the state asset users have reflected the existing conditions, some participants say that they are not convinced yet that the reports are valid. Participant P15 believes that the periodical reports from many government entities regarding their asset records, do not represent the real conditions. The reports are sent just as a formality so that the entity has fulfilled its obligation.

## **8.5 Conclusion**

Six factors namely risk allocation, cost and benefit, social and political impact, expertise, collaboration, and performance measurement, are perceived as the factors most influencing PPP accountability. The first factor, fair risk allocation encourages accountability practices in two ways. Firstly, more qualified companies are interested in joining the tender process. Then, the private sector partner can operate in a normal situation without unnecessary pressures to cover the unfair risk transfer. Cost and benefit analysis is considered as the second influencing factor. A proper cost benefit analysis can act as a filter so that only projects whose benefits outweigh costs, can be offered to the private sector. The next factor is expertise which positively influences accountability in every stage of the PPPs. The expert private partner can construct better quality buildings and operate efficiently in the implementation stage. The fourth factor is performance measurement, although in the Indonesian PAM context, they do not have a performance

measurement. The government tries to measure the private partner's performance by conducting an audit where one of its objectives is to measure the quality of the construction.

The penultimate factor is collaboration. The role of the state asset user is in the middle between the partner and the state asset manager as can be seen in Figure 8.1. Effective communication will build trust between parties. Last, the social and economic impact encourages accountability due to public high attention on the building quality and service delivery. More attention means more efforts to build the image.

**Table 8.2 – PPP Stages: Accountability Types and Influencing Factors**

Stages	Forms of accountability	Most influencing factors					
		Risk	Cost & Benefit	Social & economic impact	Expertise	Collaboration	Performance measurement
Initiation	Legal & communal	✓	✓		✓		
Set up	Managerial & contractual				✓	✓	
Implementation	Managerial & contractual	✓		✓	✓	✓	
Termination	Managerial	✓				✓	

Table 8.2 summarises the above discussion regarding forms and influencing factors of accountability in relation to stages of PPPs. In the initiation stage, legal and communal accountability are dominant. At this time, the state asset custodian conducts a feasibility study as requested by law. The communal accountability is also dominant because in deciding the types of business operation, the state asset user is accountable to the community. Meanwhile, risk, cost and benefit, and expertise are the influencing factors at this stage.

In the set-up stage, managerial and contractual accountability are dominant. At this stage, the tender process is conducted, and the contract signed which is an indication of contractual accountability. Meanwhile managerial accountability is shown in how the DGSAM teams conduct various analysis. In this stage, expertise and collaboration are the factors most influencing accountability.

Meanwhile in the implementation stage, for the private sector partner, managerial accountability is shown when the partner manages their resources to generate revenues. Risk, expertise, social and economic impact, and collaboration are the influencing factors. Then in the termination stage, the activities conducted are part of managerial accountability. At this stage, the

collaboration factor is dominant, in order to obtain access and information about the building. Last, internal monitoring is part of internal accountability, likewise for the external monitoring.

Last, transparency is seen as part of accountability for many participants. Some of them believe that transparency in the Indonesian PAM is opaque, while the accountability practiced is targeting fraud, not performance.



## **Chapter 9**

### **Addressing PAM Problems: PPP Adoption and Its Accountability Concerns**

#### **9.1 Introduction**

The findings regarding PAM, PPPs, and accountability practices have been analysed in Chapters 6, 7, and 8 respectively. In Chapter 6, it is revealed that the state asset users and the state asset managers have a different focus on the development of PAM. In Chapter 7, the challenges and opportunities of PPP adoption are summarised from the four case studies. The accountability aspects of PPPs are discussed in Chapter 8. This chapter aims to examine the significance and implications of the above findings and then analyse them using the lens of current literature.

Despite different themes emerging from different cases, it is important to realise that the views from DGSAM actors are not uniquely case related as most of them have experience across different cases. For example, a valuer participant who had served at the headquarters from the establishment of DGSAM had been involved in all four case studies. He has a wider perspective due to his involvement in a variety of PPP cases.

This chapter is organised into seven sections including the introduction and conclusion. The second section discusses the development and challenges of Indonesian PAM, which answers the first investigative question ‘What are the development and challenges of the Indonesian PAM?’ The following section analyses the motives of the PPP adoption in the Indonesian PAM context to answer the second investigative question, ‘What are the rationales and challenges of PPP adoption?’ After that, the problems and impacts of PPPs which arise from the four case studies are discussed in the fourth section, which addresses the question regarding ‘What are the characteristics of PPPs to be considered in PAM?’ As a result, the first research question ‘How and why PPP practices been adopted in the Indonesian PAM context?’ is already answered because the first three investigative questions explore it.

The second research question ‘What are the accountability challenges of PPPs in Indonesia’s PAM?’ and its two investigative questions, ‘What aspects influence accountability in PPPs?’ and ‘How does transparency affect accountability?’ are addressed by the fifth and the sixth sections of this chapter. A final section summarises and concludes the chapter.

## **9.2 Indonesian PAM: The Current State and Perceived Challenges**

The discussion in this section is to answer research question 1.1, ‘What are the development and the challenges of PAM?’ Firstly, it will describe how PAM practices develop through milestones and then compare them with the paths of other selected countries. It will provide a background to go deeper into contemporary challenges. Then, the challenges of Indonesian PAM are discussed through the lens of the existing literature on PAM, governance and the NPM movement.

### **9.2.1 The Current State**

As discussed in Chapter 2, PAM reform in the country was preceded by three major events in 2003 and 2004 namely the enactment of the State Finance Law, the State Treasury Law and the publication of Indonesia’s first central government financial statement. Then in 2006, an asset lifecycle-based institution was established. The manual of this new organisation is Government Regulation No. 6/2006 concerning state asset management where the duties of the DGSAM were arranged following the asset life cycle framework. Not long after its establishment, the DGSAM kickstarted a nation-wide state asset arrangement program which targets three aspects of asset management: registration, valuation, and certification.

Eight indicators can be utilised to evaluate the nation’s PAM practices, namely: outline of principles, cost recognition, information system, accountability mechanism and performance measurement, responsibility and leadership role, policy on surplus assets, private sector involvement, and the accounting basis (Conway, Kaganova & McKellar 2006). From those aspects, it can be seen what aspects the country has fulfilled and what the relationship between the aspect and the NPM principle is.

Firstly, the outline of principles of the Indonesian PAM are functional, legal certainty, transparency, efficiency, accountability, and value certainty (GoI 2014). Two of the six principles adopted are in line with the NPM principles (Den Heyer 2011; Hood 1991, 1995). Three other principles: functionality, legal certainty, and value certainty are unique to the nation’s practices and defined from Indonesia’s legal perspective (Tutik & Widodo 2016). Functionality means that all asset decision making is in accordance with the function, authority and responsibility of the institution. Meanwhile the legal certainty principle obliges all actors in PAM to be bound to the law, propriety principle and justice. Last, the value certainty means that PAM practice is

supported by the accurate values of assets as a basis for financial statement presentation as well as transfers of assets.

The second indicator is the recognition of public asset cost. The cost recognition includes three aspects namely valuation, depreciation and the cost of capital. Indonesian PAM practices have complied with those three aspects. The Indonesian government until recently has conducted asset revaluation twice, once soon after the establishment of the DGSAM (President of Indonesia 2007), the latest is still in progress (President of Indonesia 2017). Since 2017, the national government has depreciated their fixed assets (MoF 2013). Their fixed assets are recorded at acquisition cost then adjusted with capital expenditures, depreciation, and altered to the result of the asset revaluation (GoI 2010).

Third, in regard to the information system indicator, a management and accounting system for fixed assets has been established since 2003. The system has been upgraded several times to adapt to changes of government accounting policies, and the latest version is called SIMAK BMN (MoF 2007). The system generates information regarding public assets to be disclosed in the financial statement.

Fourth, the mechanism of accountability in this context is designed to serve both internal and external stakeholders. External accountability is served by providing annual central government financial statements, audited by the external body, the BPK. Internally, the actors from the state asset users are accountable to the state asset manager, the MoF. In PPP type asset utilisation, there are communal, contractual, managerial, and parliamentary accountability as described in Chapter 7. Besides the BPK, there are three other types of auditor to audit the reliability of the information or reports generated, compliance to the regulations, and performances. There are inspectorate-generals in every ministry, the BPKP and public accounting firms. The last two conduct audits only by request by the MoF for specific assignments. In terms of performance measurement, the government has not developed a robust system to evaluate the performance of every property they possess. The only asset performance measurement tool is provided by the 2011 building standards which can be used to match the need for spaces and the standard of the building (MoF 2011). However, the standards applied only for new proposed buildings and their scope is still limited to very a few types of buildings.

The accountability mechanisms include legal, professional, communal, contractual, managerial, and parliamentary (Demirag, Dubnick & Khadaroo 2004; Halligan 2007; Romzek & Dubnick

1987). Legal accountability is served through the process of PPP which is heavily regulated. The inflexible regulation prohibits the promotion of PPPs to utilise surplus assets. The legal base of PPPs is enacted through the parliamentary process. Once the officers of the DGSAM and the asset custodians are satisfied by the PPP proposal, a contract is signed by both government officers and the winning private sector parties. There is no indication that the society is invited to decide what type of development will be chosen for surplus assets. It indicates that the accountability mechanism in the asset-based PPPs does not sufficiently support communal accountability.

With regard to the fifth indicator relating to management responsibility and the leadership role, the MoF as the state asset manager plays two roles as the policy maker as well as the policy implementer. Most PAM activities are conducted by state asset users but in regard to real properties they are required to seek preapproval from the MoF. This circumstance shows that most authority has been delegated to government agencies, but the MoF still holds the leadership role. A punishment and reward system has been established but it does not operate in real terms.

In the case of the sixth indicator, regarding surplus or idle assets, only a few government agencies are keen to declare that some assets under their custody are surplus or idle. By law, they are required to hand over the asset to the MoF or prepare a utilisation plan involving the private sector. As a developing country where a number of infrastructure facilities are still below standard compared to developed countries, the current policy design discourages the disposal of real properties. The selling of properties with a market value of more than ten billion rupiah requires approval from the president (MoF 2016a). Ten billion rupiah is considered a low value for a property in Indonesia, but that still needs the approval of the president.

The seventh indicator concerns the involvement of the private sector in the Indonesian PAM in asset utilisation. For short term contracts, government agencies rent the properties but for a long term, they have to adopt PPPs mostly the BOT scheme. Hiring private companies to manage government buildings is not common practice. Most institutions prefer to own and manage their own properties. Building management is conducted by their own general affairs division.

Finally, the basis of accounting, in 2015 the central government for the first time published its accrual financial statement (GoI 2016). It took five years for the nation to fully convert to accrual basis from the issuance of its accrual accounting standard in 2010 (GoI 2010). A full accrual accounting system is believed to provide a better foundation for public asset management. The

government wants to benefit from this adoption as the system delivers higher accountability and better asset valuation (Chan 2008; Wynne 2007).

To sum up, Indonesian PAM has met six out of the eight indicators of reformed PAM practices: the first, second, third, fourth, fifth, and eighth indicators. Regarding the sixth indicator, their treatment of surplus assets does not indicate a willingness to dispose of them to the private sector which is reasonable for developing countries. As a developing country, land is required for many infrastructure developments. Also, the government has not involved the private sector to manage their office buildings as they are still served by in house activities. The involvement of the private sector; cost transparency; accrual-based accounting; and outlining transparency, efficiency, and accountability; are signs that Indonesian PAM is shifting from traditional public administration to the new public management (Dunleavy & Hood 1994; Kaganova 2012; Reichard 1998).

### **9.2.2 Different Perceived Challenges**

The research found that actors from different institutions see the current challenges of the Indonesian PAM differently. Six challenges emerged from the actors' perspectives namely the asset registry, asset security, asset utilisation, regulations and policies, performance measurement and asset management skills. Those six emerging challenges are analysed through the perspective of NPM principles and the lens of the asset management framework as can be seen in Figure 9.1.

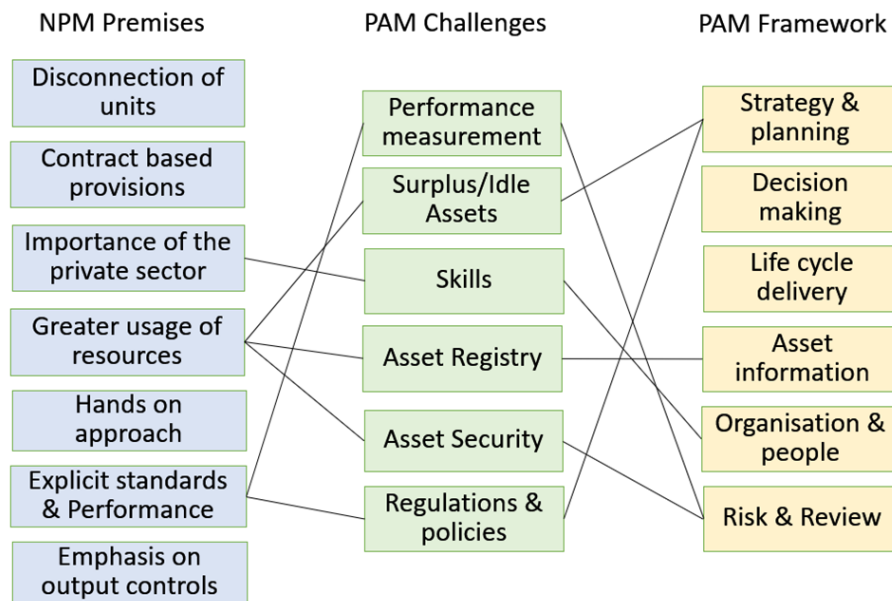
#### *NPM Perspective*

Through the lens of NPM, the six challenges to the Indonesian PAM can be linked to NPM premises (Hood 1995). Lack of asset performance measurement means that Indonesia's PAM does not meet the sixth premise 'explicit standards and performance'. Despite the adoption of the asset lifecycle approach (Abdullah et al. 2012; GoI 2006a), the absence of performance measures indicates that the PAM cannot accurately monitor each phase of asset cycle as indicated by the performance management framework (Poister, Aristigueta & Hall 2015). The absence of performance measurement leads to difficulties in identifying surplus or underutilised assets which is the second challenge of the Indonesian PAM.

The existence of surplus assets indicates that the government has not fully adopted the NPM principle of greater usage of resources. This problem is also experienced by developed countries such as the UK and US (Kaganova & Polen 2006). Inefficiency is the negative effect of the surplus asset (Kaganova & Nayyar-Stone 2000) as the government gains no benefit yet still has

to allocate resources to manage the asset. At the same time, the problem of the asset registry and asset security worsen the circumstances as those problems are also related to the principle of greater usage of resources. Invalid asset registration lowers the reliability of the financial statement and limits the ability to apply benefit cost analysis (Grubišić, Nušinović & Roje 2009).

**Figure 9.1 – PAM Challenges through the Lens of NPM and the PAM Framework**



Insufficient property management skill mostly in the state asset users, links to the premise ‘private sector styled management practices’. The skill is essential if the government wants to gain the benefit from the private sector practice for greater efficiency (Hood 1991; Poister, Aristigueta & Hall 2015). Last, the problems related to the regulations and policies indicate that the Indonesian PAM has not fully employed the fifth and sixth premises of NPM. The regulations and policies have to meet two criteria, namely show clear assignment of responsibility without any diffusion of power, and clearly state the goals of the organisation. Those criteria deal with the fifth ‘active and visible high ranking management’ and the sixth ‘explicit standards and performance measurement’ premises respectively (Hood 1995).

The impact of the above problems prevents the Indonesian PAM from fully obtaining the NPM benefits (Pollitt, C 2005). Instead of saving and efficiency, lack of performance measurement and a large number of surplus assets show that the government wastes its resources due to high inefficiency. Lack of knowledge of its staff, problems in asset registration and asset security, and the weaknesses of its regulations and policies prevent the Indonesian PAM from improving its business process, to enhance effectiveness, and to achieve a more capable administration.

### *Accountability-related problems.*

The absence of asset performance measurement in current PAM practices means the government has difficulty in classifying their assets based on how fully they are utilised. The current system can separate surplus assets from utilised assets but is not yet able to properly differentiate between underutilised and fully utilised assets. Nevertheless, from the perspective of four types of managing performance (Bouckaert & Halligan 2008), Indonesian PAM practice can be categorised as performance administration, the second of five stages charted by the study. Current Indonesian practice has administrative data registration in the form of asset attributes, it has already taken into account different databases from different institutions yet in a very limited nature. The report generated is also limited and still cannot be used for further decision-making processes.

The existence of surplus or underutilised assets indicates an inefficiency in utilising the organisation's resources. However, the problem is not uncommon as not just other developing countries like Malaysia but several developed countries such as the US and the UK have the same problem, yet each country has different reasons and approaches (Abdullah et al. 2011; Hentschel & Utter 2006; Kaganova & Nayyar-Stone 2000; Kaganova & Polen 2006; Lu 2011). In Indonesia, asset utilisation and disposal are the way outs provided by the current policy, with the former encouraged and more favoured by most actors.

Lack of skilled human resources is also an accountability issue. Highly skilled personnel are required to interpret the regulations and apply them to address the problems accordingly. However, in Indonesian PAM, a statement about problems with unskilled personnel in the state asset user institutions could be misleading. The problem could come from the regulations by which the institutions are required to perform a duty which is not their main function. Several countries at some point of their PAM development experienced the problem of human resources. Human resources is in Group 5 in the PAM framework (Den Heyer 2011; IAM 2015; Kaganova & Nayyar-Stone 2000).

### *Transparency problem: asset registry*

Still perceived as a problem for some actors of the state asset users, asset registry was once a significant obstacle in developing Indonesian PAM. Massive assets were registered during the first asset revaluation program from 2006 until 2009. Actors from the DGSAM believe their organisation is ready to step further to create a real time asset information system like the system

employed in many developed countries such as New Zealand (Audit New Zealand 2010). There is no more asset reconciliation between institutions required. In many countries such as France, Germany and Switzerland, under commercial law it is legally obligatory to register public assets (Kaganova & Nayyar-Stone 2000).

Asset registration is the first step toward an advanced asset information system in which transparency is displayed and improved (Zimmermann 2008). In addition, the asset register can serve several other interests such as asset security and provide a basis for the decision making process (Shepherd 2006). The view from non MoF actors is supported by the auditors who see that there are still some weaknesses in the current recording system including asset registration as massive an issue as those in the past. The extreme failure of asset registration could bring severe destruction to the organisation (Shepherd 2006). From the perspective of the PAM framework (IAM 2015), asset registration will create a data base that can be standardised, processed, and reported on for other purposes of the organisation.

#### *Rule of law related challenges*

As an archipelago country, Indonesia has government assets spread in many remote areas or even on isolated islands. During Soeharto's era, people were afraid of taking government assets illegally, but after the collapse of the regime, large areas of government land were occupied illegally. The situation got worse as many of those lands were not supported by legal documentation. Compared to other countries, like Malaysia, the country also experiences problems regarding legal aspects of land property. Its concern is the lack of specific legal provisions to safeguard the public land (Abdullah et al. 2011).

As discussed further, public land has different roles than that owned by the private sector. For example, there should be a linkage between the legal status and the land use (Zimmermann 2008), so the public can benefit more from the utilisation of government-owned lands. People who live in the surrounding areas can be involved in utilising government vacant lands but with clear and valid contracts. Once the people receive the benefit, the government land can be more secure from illegal occupation.

In regard to challenges in current regulations and policies, there are four aspects which concern many participants namely inflexibility, ineffective sanction policy, inappropriate authority delegation, and the burden of the past. The main source of inflexible policy is that it tries to regulate many detailed aspects. The more detailed a regulation is, the more inflexible it is. To



shift from traditional public administration to new public management, the government needs to deregulate many detailed aspects of its PAM practices, and open the door wider for the private sector (Dunleavy & Hood 1994).

Ineffective sanctions and inappropriate authority delegation are perceived as a problem arising from the relationship between the state asset manager and the state asset users. The role of the MoF in Indonesia is mostly similar to that of the MoF in Australia and New Zealand (Conway 2006; Dow et al. 2006). The problem in Indonesia goes back to the condition of not enough incentives nor punishments for the ministries retaining surplus assets. On the one hand, some ministries/institutions, usually the old ones, hold a large number of surplus assets. On the other hand, many ministries propose office spaces to the MoF. Yet, as the state asset manager, it is not easy to transfer assets from one ministry to another. In New Zealand, the capital charge policy discourages ministries from holding assets above what is needed as this will reduce their budget allocation. In Australia, the PAM emphasises integrated strategic asset management where the role of the MoF is central in managing all federal government properties located in the country excluding military assets. Two keys of central government asset management are seen as the leadership role and the incentive/disincentive of holding efficient/surplus properties.

#### *Through the lens of the PAM Framework*

From the perspective of the PAM framework, the security problem relates to the risk and review group where risk assessment and management are conducted to mitigate the risk arising from the undocumented properties. No legal documentation gives the potential for legal disputes in the future. Meanwhile regulations and policies are part of a strategy and planning group where the organisation prepares asset management policy, strategy and objectives, and planning (IAM 2015).

### **9.3 Motives for PPP Adoption**

There are two options available to address the problem of surplus assets: dispose of or develop them. As the government still sees the need for the assets in the future, they do not opt for asset disposal but seek private sector partners to develop them. As discussed in Chapter 7, there are five motives for PPP adoption in addressing the surplus asset problem namely: accessing external financial resources, benefiting from expertise and experiences from the private sector,

safeguarding the assets from illegal occupation, acquiring additional fixed assets for the custodian agencies, and leveraging a bargaining position for an additional budget allocation.

The first two motives are not different to PPP adoption for infrastructure development. When the government cannot afford to develop projects with its own budget then it invites the private sector to invest their money (Grimsey & Lewis 2005; Hodge & Greve 2007; Yescombe 2007). The government also realises that they do not have the expertise nor the experience to run the project and they look for a private sector partner with the appropriate background (Brinkerhoff & Brinkerhoff 2011; Evans & Bowman 2005; Hodge & Greve 2007).

The thesis finds that in all case studies, the motives for the PPP adoption are both for financial access and for the private sector expertise and experience. In CS-2, there are several PPP contracts utilising some parcels of land. Some contracts are for projects to develop vacant lands and other contracts are for managing existing sporting facilities. The former has no differences from other case studies, but the latter is mostly driven by the motive to gain private sector expertise and experience.

The above motives are also mentioned in the MoF regulation which states that private sector partners are required to provide financial resources, experience, expertise, managerial and technical skills, human resources, and equipment (MoF 2014a).

#### *PAM unique motives*

Besides the above two common motives for the adoption of PPP, the research also find that in property based PPPs, there are three other motives namely safeguarding the surplus asset, acquiring additional fixed assets for the custodian agencies, and leveraging their bargaining position for additional budget allocation. Those three motives arise from the perspective of the asset users. In addition to those motives, it is also revealed that one participant recognises that his institution receipt fund from the private sector partner.

As discussed in Chapter 7 and the previous section, government land which is left vacant is highly likely to be illegally occupied. If the occupied land does not have legal certification, the potential to lose the land becomes much higher. Illegal occupation of government lands is quite common in the country especially when the land is left vacant (Rachmawati 2014). To mitigate the risk of losing land, the government has conducted legal certification on more than twenty thousand

pieces of land across the archipelago. That number represents less than 60% of the total uncertified state-owned as can be seen in Table 9.1.

**Table 9.1 – Legal Certification of State Lands**

No.	Regions	Realisation	Target
1	Aceh	965	4,110
2	Sumatera Utara	1,055	1,534
3	Riau, Sumbar, Kepri	1,267	2,685
4	Sumsel, Jambi, Babel	2,073	2,825
5	Lampung dan Bengkulu	1,257	2,017
6	Banten	839	1,093
7	DKI Jakarta	204	374
8	Jawa Barat	390	2,157
9	Jateng & DIY	1,497	1,777
10	Jawa Timur	1,666	2,485
11	Kalimantan Barat	530	1,789
12	Kalsel & Kalteng	716	1,203
13	Kalimantan Timur dan Utara	211	850
14	Bali dan Nusa Tenggara	713	2,629
15	Sulsel, Sulteng, Sulbar	2,252	3,142
16	Sulut, Sulteng, Gorontalo, Maluku	2,297	4,252
17	Papua and Maluku Islands	1,364	2,505
	<b>Total</b>	<b>21,296</b>	<b>37,427</b>

Source: the DGSAM (2019)

Next, the research find that the partnership becomes a tactic for the asset user to obtain additional fixed assets from the private sector partner. It seems the PPP becomes a shortcut for that agency to procure assets without passing through the normal channel of budgeting where the decision is not always favourable. This situation can be seen as a breach of the most fundamental budgetary principle namely comprehensiveness. Comprehensiveness requires that all government revenues and expenditures must pass through the budgetary cycle (Sundelson 1935). In this circumstance, the revenue from the partner goes directly to the asset user in the form of fixed assets.

For a public service unit (BLU), this excuse is justifiable as it is a semiautonomous agency which has the authority to manage its revenues and expenditure (GoI 2012a). The practice in CS-3, the BLU as the government vehicle to manage the sporting complex, has the authority to negotiate with the private sector partner, and to manage its own budget. In another case study, there is no justification from the budgetary perspective, for the asset user to receive any direct contribution from the private sector partner.

The second motive is that the asset user can increase their bargaining position to propose an additional budget allocation from the nontax revenue from the PPP contribution. By law, a ministry is entitled to obtain additional revenue from nontax revenue it contributes (GoI 2018b). A stream of revenue flows to the state budget annually from asset-based PPP projects. The asset custodian can claim back a certain percentage of those revenues to fund their activities. To do this, the agency still needs approval from the MoF. Using this channel, the asset custodian gets additional revenue through the proper budgetary cycle in which all revenues go to the state budget and the additional expenditure for the agency also comes from the budget.

The two above motives are explicit and legal transactions where the asset users get additional revenue. However, from governance point of view, the second motive is a better way for the asset user to benefit from the PPP projects as all revenues from the partner contribution and the additional expenditure allocation are coming from the budgetary cycle (the principle of universality).

To understand why the private sector partner provides assets to the asset custodian, it is important to consider the Indonesian culture regarding how members of society deal with government officials. For most Indonesians, giving gratification for officials is necessary in return for the public service they receive (Robertson-Snape 1999). This is also the case, when the private sector partner gets 'help' from the officials of the asset custodian during the PPP process. However, due to the fact that gratification is forbidden by the current law (GoI 2001), the private sector partner gives the gratification to the institution instead.

One participant who is an official of the asset custodian suggested that gratification to the officials most likely still exists in asset utilisation projects. Yet, in the asset utilisation context, the research has not found any gratification charges issued by law enforcement institutions. Gratification is a part of the corruption activity which is part of PPP risk and this kind of risk should be assigned to the government (Chan et al. 2010).

#### **9.4 Problems and Impacts of PPPs**

Sixteen themes emerged from the research which have been classified into three categories: regulation and policies, contracting party issues, and PPP impacts. In this section all those themes will be discussed based on the literature. It has been found that the current regulations and policy contain uncertainty due to the changes in government direction. In addition, the regulation is inflexible and so is the contract which makes it difficult for both parties to adapt to the current

situation. One of the impacts of the inflexibility is the lack of a dispute settlement mechanism. Some articles in the government regulations can be interpreted in different ways which can lead to different actions to fulfil the demands of those articles. In some projects where the assets from other levels of governments are also utilised, it seems there is a lack of coordination between government agencies themselves. The private sector also complained about intervention by political figures of the parliament in several tender processes.

NPM is dynamic and so is the government organisation (Oehler-Sincai 2008) yet not as dynamic as the private sector. It changes its direction and as a result, the regulations and policy are altered. In CS-1, the private sector partner claims the new regulation added new obligations that differed from the contract. The research found under the previous regulation, that in BOT partnership projects, approval from the MoF had been required and the government had been entitled to a portion of the asset once the building was ready. In another case. CS-2, the private sector partner was required to provide additional documentation due to the changes in government regulation.

Regulation related risks are one of the principal risks in PPPs (Akintoye, Taylor & Fitzgerald 1998; Wettenhall 2005; Yescombe 2007) which should be allocated to the government. Meanwhile cross-sectoral collaboration is believed to bridge relationships between partners (Brinkerhoff & Brinkerhoff 2011). As with the corruption problem, political intervention both from the government officials or MPs is a risk that should be addressed by the government (Chan et al. 2010).

Meanwhile, the request from company C4 of the CS-4 that the government should lower the contribution payment from PPP infrastructure projects, is considered appropriate as the government is obliged to provide public infrastructure (Adams, Young & Zhihong 2006; Akintoye & Beck 2009; Greve & Hodge 2005). The same requests came from several other projects and the government responded by issuing a MoF regulation regarding procedures on state asset utilisation for infrastructure projects (MoF, MoF 2014). Under that regulation, the contribution payment for the government is significantly lower and for some selective projects, can be waived.

Other types of challenges come from the contracting partners. The private sector partners are reluctant to disclose the project financial statement fully. This fact is not surprising as in other countries, the private sector partner is not transparent at several stages of PPPs (Abdul Aziz 2001; Hood, Fraser & McGarvey 2006; Zhang 2005). Here, the government can exercise its authority

to encourage and to push them to be more transparent and an audit process can mitigate the risk of opacity (Hood, Fraser & McGarvey 2006).

From CS-3, it is revealed that the government has suffered from weak legal expertise in drafting contracts and the problem has continued to do damage until recently. In the case study, the BLU did not have enough experts in conducting the PPP process, mostly in the contract drafting before and after the tender process. Contract drafting is a focal point as it becomes the reference for all activities conducted by both partners until the end of the partnership (Evans & Bowman 2005). Meanwhile, on the asset custodian side, they have difficulties preparing the feasibility studies as an entry point for an asset-based PPP. In a PPP, one of the government's motives is to gain expertise from the private sector (Liu & Wilkinson 2011), including their expertise in preparing valid and reliable feasibility studies to decide which project to develop on government land. There is a view that the asset custodian is not the proper entity to develop such studies.

The social and economic impact of property-based PPPs may not be as large as those for infrastructure development, nevertheless, there are some noticeable contributions from the four case studies. CS-3 displays how the government manages the largest sporting complex in the country. Two intriguing facts emerge about CS-3. Firstly, of the four case studies, it is the only one that utilises a semiautonomous entity to represent the government dealing with the private sector partners in managing the complex. This entity can overcome the barriers arising from governmental body attributes in dealing with the private sector. To do this, the entity must have hybrid characteristics as a governmental body yet be flexible enough to mimic the behaviour of the private sector (GoI 2012a). The CS-3 also shows that commercialised public assets can support funding the core function of the asset itself. The proceeds from the business are mostly channelled to maintain and upgrade the facilities.

The other three cases also contribute to local economic development. The CS-1, despite its legal dispute, has used underutilised land in the prime area of Jakarta. Its main tenant includes a newly established government body. Meanwhile the role of the CS-2 is more to do with driving medium to small size entrepreneurs in the surrounding areas. That can be seen from their list of tenants. Finally, the CS-4 has a larger impact as it increases the flow of people and goods for the whole province.

## **9.5 Accountability: The Influencing Factors and Accountability Forms**

Most actors define accountability as involving responsibility, transparency, legal compliance, reporting, audit, and resource use. The choice of words from the actors indicates that most of them focus on the mechanisation of accountability. In the discourse of mechanisation, accountability promises control which can be achieved through overseeing, directing operations and behaving within the organised context (Dubnick 2014). One actor believes that the relationship between the asset user and the asset manager is between the agent and the principal. Likewise, the relationship between the private sector partner and the asset user shows the same mechanism. This confirms that accountability is being mechanised. In addition to that, the accountability discussion is not monolithic. Some other actors use the term legal compliance in relation to the context of formalisation, and law enforcement. This is a sign of a formalisation discourse in which accountability promises justice (Dubnick 2014).

### **9.5.1 Factors Influencing Accountability**

The six most influential PPP accountability factors have been identified and ranked according to their influence based on the actors' perception. They are risk allocation, cost and benefit, expertise, performance measurement, collaboration, and social and economic impact as can be seen in Table 8.1.

Risk allocation is perceived as the most influential factor in PPP accountability. When risk is allocated to the party who can best control it, the partnership as a whole will be able to maximise its benefit (Forrer et al. 2010). Proper risk allocation comes from good project governance. The two together result in a high performance for the project (Abednego & Ogunlana 2006) which accountability can refer to. Proper risk return trade off is recognised by the government (MoF 2014a) where the private sector partner who bears more financial and business risk will be required to pay a lesser percentages of the profit sharing agreement.

The concept of risk and accountability can be seen from the perspectives of risk avoiders and risk takers (Weigold & Schlenker 1991). Accountable risk avoiders still take the risk but with caution and prefer a situation that provides safety and satisfaction. Meanwhile, risk takers seek for risk even when accountable. Accountability will be enhanced when both risk takers and avoiders are allocated risks that they can manage. The difference is only how they see the risk. The former sees the risk positively but the latter cautiously.

Secondly, cost and benefit analysis is conducted prior to the decision to adopt a PPP. There are several types of such analysis, from a simple one to a complicated full analysis (Forrer et al. 2010; Grimsey & Lewis 2005). The aim of this analysis is to make sure that the benefit of the PPP is higher than its cost, in other words, that value for money is achieved (Grimsey & Lewis 2005). In the PAM context, as the project is initiated by the asset custodian, the cost benefit analysis is conducted by their officials. The hazard of this situation is, if in aggregate the project benefit overcomes its cost but they do not see the benefits for their agency, they will be discouraged from pursuing the initiation process. Having realised this situation, the asset manager still does not forbid the practice of giving assets to the asset custodian.

Thirdly, it has emerged that expertise is perceived as the third most influential accountability factor. Expertise is one of the main reasons for PPP being adopted (Brinkerhoff & Brinkerhoff 2011; Evans & Bowman 2005; Hodge & Greve 2007; Shaoul, Stafford & Stapleton 2012). A stronger notion claims that expertise is the key to professional accountability (Romzek & Dubnick 1987) as it is a fundamental requirement for assessing risk management (Palermo 2014). The government itself already appreciates the need for expertise (MoF, MoF 2014). Expert staff are required not only for the private sector partner but also for the government especially in the initiation and set up process.

Furthermore, performance measurement ranks fourth as an influencing factor. It influences accountability by providing the basis for reward and punishment decisions (Forrer et al. 2010). Despite the fact that a performance measurement system is not yet available, the Indonesian government has set up a monitoring and auditing system to verify private sector partners compliance (MoF, MoF 2014). It should be noted that performance measurement for accountability can mislead the organisation to focus only on how the resources are used to achieve the objectives and disregard exploration and learning from experience to improve the performance (Halachmi 2002).

The penultimate factor is collaboration. Only a few actors consider collaboration as the main factor influencing PPP accountability, yet some told how they collaborate with their counterparts. It was evident that both control and collaboration occur in practice. By law, the asset manager is required to control the asset user, and the asset user controls the private sector partner (MoF, MoF 2014). Despite collaboration creating strong commitment between partners (Sundaramurthy & Lewis 2003), collaboration between actors is just part of the leadership style of one of the actors but not part of organisation culture.



Finally, actors believe that PPP in PAM does not have a large impact compared to the impact of PPPs on infrastructure development. They therefore rate this factor as the least influential on accountability. Even so, the social and economic contributions from all case studies have been mentioned by them. Instead of the social and political impact (Forrer et al. 2010), they prefer to consider the social and economic impacts of the projects because these impacts are easier to discuss. In short, the more social and economic impacts, the more accountable the PPP projects are. Public attention either in the form of satisfaction or criticism, encourages the partnership to be more accountable. The CS-3 has had the most public exposure as it holds many national and international sporting events.

### 9.5.2 Accountability Concerns in PPP Stages

#### *Accountability forms*

As discussed in Chapter 3, accountability can be classified in different approaches such as internal and external, legal and professional, bureaucratic and political vertical, external or horizontal (Demirag, Dubnick & Khadaroo 2004; Halligan 2007; Romzek & Dubnick 1987). In regard to PPP stages, a series of accountability mechanisms starting from communal, contractual, managerial, and parliamentary can be assigned to each stage (Demirag, Dubnick & Khadaroo 2004). In the PAM context, the research applies two PPP accountability frameworks (Demirag, Dubnick & Khadaroo 2004; Forrer et al. 2010) and finds the accountability – PPP stages relationship as can be seen in Table 9.2.

**Table 9.2 – PPP Stages: Accountability Types and Influencing Factors**

No.	PPP Stages	Accountability Forms		Factors Influencing Accountability in PAM Context
		PAM Context	Infrastructure Context	
1	Initiation	Legal & communal	Communal	Risk, cost & benefit, expertise
2	Set up	Managerial & contractual	Contractual	Expertise, collaboration
3	Implementation	Managerial & contractual	Managerial	Risk, social & economic impact, expertise, collaboration, and performance measurement
4	Termination	Managerial	NA	Collaboration
5	Internal monitoring	Managerial	Managerial	NA
6	External monitoring	Parliamentary	Parliamentary	NA

Slightly differing from the PPP accountability form framework (Demirag, Dubnick & Khadaroo 2004), the research adds one additional stage, the termination because actors view this stage as critical. At this stage, the government will get its assets and the buildings. To make sure that the building is still in good shape before being handed over to the government, a construction audit is conducted (MoF 2014a).

In the initial stage, the forms of accountability are the legal and communal while in the PPP for infrastructure, there is only one form of accountability, communal accountability (Demirag, Dubnick & Khadaroo 2004). In PAM, the PPP is proposed by the asset custodian as it is obliged by the regulation to utilise surplus or idle assets. Therefore, the asset custodian is legally accountable. The agency is also accountable to the community because in determining the type of project, it considers the circumstances and the needs of the community. At the initiation stage, risk, cost and benefit, and collaboration are the most influencing factors. Before deciding to choose a PPP project, the asset custodian conducts a cost benefit analysis, verifies the risk, and collaborates with the asset manager to obtain initial approval.

The research found that in this stage the asset custodian is required to conduct a brief feasibility study to determine what project to develop (MoF, MoF 2014). The human resources of the asset custodian do not have sufficient skills to conduct a study or a complex asset utilisation project. The practice discourages accountability as the asset custodian is assigned to conduct studies and this is not its main function.

In the second stage, the accountability forms in the PAM context are managerial and contractual while in the infrastructure development context, the form is contractual only. At this stage, the asset manager conducts several managerial actions to evaluate the request from the asset custodian. After the tender process, the asset custodian and the winning party sign the PPP contract. Meanwhile the influencing factors are expertise and collaboration.

In the following stage, besides the managerial form in the PAM context, there is also the contractual form of accountability. This is due to the order of the current regulation that once the construction is completed, the government will assign an audit team to verify whether the construction is in line with the specifications stated on the contract. The implementation stage represents most of the contract period, where almost all factors influence the accountability.

In the PAM context, the termination stage at which the government will receive the project assets is crucial and prior to that, the government sends a construction audit team. The team is assigned to make sure that the asset is in good condition before it is handed over.

There is no difference in the internal and external monitoring processes of the PPP stages between the PAM and infrastructure context. In the internal government process, there are monitoring and auditing activities conducted by the inspectorate-general of every ministry, the MoF, and the BPKP. Meanwhile, in the external accountability process, the ministry reports to the parliament and they are audited by the BPK.

## **9.6 Toward Accountability: Compliance and Transparency**

The research discovers that most government participants rank compliance over performance given that they realise that the current regulations can prevent the achievement of performance. The actors measure their behaviour against the text of regulation known as legal accountability (May 2007). This is the most elementary accountability where the content of the regulatory provisions is propagated. Despite the opportunity to innovate in order to enhance performance, the actors overemphasise administrative veracity and anti corruption measures (Bovens 2007, 2007 ; Bovens, Schillemans & Hart 2008) In many cases, the view that compliance is more important than performance, together with a reluctance to deviate from the rules when circumstances require, delivers unfavourable results for the larger national interest.

In contrast, actors of private sector partners prioritise performance over compliance. This behaviour serves profit orientation and the longevity of their organisation well. A complicated situation occurs when the performance oriented private sector actors meet with the compliance-oriented government actors.

All government actors understand transparency and accountability as the keys to good governance. Moreover, the actors' adherence to legal accountability influences the type of transparency adopted from which the fairness and appropriateness of their behaviours can be measured against the regulations. As described in Chapter 8, the state asset users answer to the asset manager periodically by reporting to comply with the regulations. However, some actors from the asset manager view the reports as merely a formality to show compliance with the regulations. Not much information could be extracted to measure the performance of the asset utilisation. This is a sign that opaque transparency is evident, where the information does not disclose the actual behaviour or condition in practice (Fox 2007). The auditors' perspective on

accountability determines how they conduct the audit in measuring the compliance or performance of the auditees. Some auditors display their misperception of the behaviour of the auditee who seems to have fully complied with the regulations. This behaviour delivers negative affects to the performance of the organisation.

## **9.7 Conclusion**

The discussion presents the current state of Indonesian PAM practice through the lens of eight indicators of public sector reform toward good governance and new public management. Six indicators regarding the principles, cost recognition, information systems, accountability mechanisms, managerial roles, and accounting recording basis, have been met by the current PAM practice. In regard to the treatment of surplus assets and the involvement of the private sector. Those indicators have not been fully implemented.

The chapter also shows the differences between actors from different institutions of perceived challenges and analyses them through the NPM principles and PAM framework. The current challenges are performance measurement, surplus or idle assets, skills, asset registration, asset security, and regulation-related issues. The first, second and third challenges deal with accountability issues from the NPM perspective, and deal with risk and review, strategy and planning, and organisation and people. The registry challenge is a transparency issue that influences the quality of asset information. The security and regulation challenges are related to the rule of law principle that relates to the strategy and planning of the organisation.

There are five reasons behind the PPP adoption. The first and second reasons are to access external financial resources as well as the expertise and experience of the private sector. These motives are no different from those of PPP for infrastructure development. The other three motives regarding safeguarding assets, acquiring additional fixed assets, and leveraging bargaining positions are unique to the PPP in the PAM context.

After the adoption motives, the chapter also discussed the emerging themes of PPPs divided into three categories: regulation and policy issues, the related party concerns, and the impact of PPPs. The problems related to regulation and policy should be the responsibility of the government. The government has problems with contract drafting issues and the expertise of the asset custodian. Meanwhile the private sector partners should be more transparent in providing their operational activities. The PPPs of those four case studies deliver positive social and economic impacts to the local societies.

In regard to accountability practices, the chapter discusses the six influencing factors based on the perceptions of the actors. Those factors together with various forms of accountability can be allocated to every stage of PPP projects from initiation to the implementation stages. Last, the chapter reveals how the actors' perspectives of transparency and compliance affect their accountability practices.



## **Chapter 10**

### **Conclusion and Recommendations**

#### **10.1 Introduction**

The purpose of the thesis is to investigate PPP practice and accountability concerns in the Indonesian PAM context. To gain a complete picture, it is essential in the very beginning to understand how the nation manages its public assets, what challenges it has, and how it addresses them. PPPs have been adopted to address the problems arising from surplus assets, but the adoption brings consequences for accountability due to the involvement of the private sector in public affairs.

The thesis explores the practice of Indonesian PAM to understand its development and challenges. Its development shows that the nation transformed its public sector management through the implementation of good governance principles and joining the NPM movement. Once the principles and practices of private sector management were adopted, the government set the objective of sound asset management but encountered several challenges. One of these is the existence of surplus or idle assets that obstruct the goals of high financial returns and service excellence. For decades, some measures were taken to address the problem by renting or long term leasing the properties to the private sector.

PPPs have been adopted for several purposes, including in PAM where property-based partnerships were set up to utilise surplus assets. Several countries have adopted this policy including Indonesia. The complications of the policy and the context of Indonesian PAM raise accountability and transparency challenges. Every stage of the PPP process has different forms of and influences on accountability.

The discussion in this chapter is divided into six sections with the introduction and summary the first and last sections. Section 2 summarises the main findings of the research while section 3 answers two research questions and the five investigative questions. The contribution of this research and its policy recommendations are discussed in the following section. The final section explains the limitations of the research and directions for future studies.

## **10.2 The Aim and Approach of the Research**

The research aims to explore the key features of the Indonesian PAM, the reasons for and practices of PPPs in the PAM context and the impact of the partnership on accountability. The research poses two main research questions:

- 1) How and why have PPPs been adopted in the Indonesian PAM context?
- 2) What are the accountability challenges of PPPs in Indonesia's PAM?

To answer the above questions, the research employs a multiple case study approach where an in depth understanding is obtained through the analysis of the complexities of each case based on its social, economic and historical context (Yin 2014).

In a case study research, the interpretation and analysis are built based on information coming from three different sources. Firstly, interviews with forty participants provide insight information from parties deeply involved in the process of policy making and implementing, auditing, and parliamentary debates. Those participants come from five different interest groups namely the Ministry of Finance as the state asset manager, other ministries as the asset custodians, private sector parties, auditors and members of parliament. The second source of information is government documentation regarding its PAM policies and PPP practices. Besides that, it plays a role in verifying the validity and consistency of the views of the interviewed participants. Last, publicly available information presents the current social and economic context behind the Indonesian PAM and PPP practices.

The research runs thematic analysis on its data set to identify emerging themes. Those themes can be classified into four groups: the challenges of the Indonesian PAM (Table 6.1), motives of the PPP adoption (Table 7.1), the challenges of PPP adoption (Table 7.2), factors influencing PPP accountability (Table 8.1). These groups of themes provide the basis to answer the research questions.

## **10.3 Findings to Answer Research Questions**

Chapter 6 and 7 have answered the first main question of 'How and why have PPPs been adopted?' Meanwhile, Chapter 8 responds to the second main question, 'What are the accountability challenges of PPPs?' The main findings which answer those research questions are concluded in the following sections. In addition, there are other relevant findings discussed accordingly.



### **10.3.1 The Development and Challenges of the Indonesian PAM**

The first investigative question is. ‘What are the development and challenges of the Indonesian PAM?’ To answer this question, the research explores the milestones of PAM practices of the country, its institutional transformation, and the perspectives of its actors. The research found that Indonesian PAM practices can be traced back to the time when infrastructure development began. The PAM did not formally employ governance principles until the enactment of the 2003 State Finance Law. The 2003 State Finance Law, the 2004 State Treasury Law, the 2004 Auditing of State Finance Law provided the foundation for public sector management in the nation. Not long after, the government issued its accounting standard and the first central government financial statement. The concepts of result-oriented accountability, professionalism, proportionality, transparency, and independent audits were recognised. In PAM policies, the asset life cycle framework has been applied in which the full cycle includes planning, procuring, operating, and disposing.

Lacking accountability for its asset management, a state arrangement program was conducted from 2007 to 2009. The program was able to provide the registration and valuation of all government assets and to some extent revealed the problems. Based on the result of the program, the institution in charge, the DGSAM generated long term plans involving asset utilisation, asset legal documentation, budget and asset integrated planning, and an accrual-based asset accounting system.

#### *The development*

There are eight indicators or criteria to measure the progress of the Indonesia PAM. Firstly, the nation has established its PAM principles namely functionality, legal certainty, transparency, efficiency, accountability, and value certainty. Secondly, it has recognised the cost of public assets. Thirdly, an asset information system has provided the basis for decision making although it has not been able to generate asset reports in real time. Fourth is an accountability mechanism involving internal government bodies as well as the parliament. To ensure the quality of reports, audits have been conducted by both internal and external auditors.

Fifth, most authorities have been decentralised to the asset users although the asset manager still plays a strong leadership role in setting PAM policies and delivering approval or rejection in important asset transactions. The reward and punishment system has not been effective because there is a flaw in the current policy. Once a sanction applies, it will backfire on the DGSAM.

Sixth, the surplus or idle assets can be disposed of, transferred to the asset manager or utilised by involving the private sector. The first and second options are not favourable to the asset user as they will lose potential benefits in the future. Selling properties is also discouraged by the current policy as high-level approvals, as high as the president or the parliament, are required. The private sector has been involved in utilising surplus assets. Seventh, private sector involvement in the PAM is still limited to surplus asset utilisation. No private companies have been involved as property managers of government properties. The current system is contracting out services required from the private sector. Finally, since 2015, the government has employed an accrual basis accounting system.

### *The challenges*

The challenges of the current practices can be linked to the seven premises of NPM and categorised into accountability, transparency, and the law-related issues. In addition, the challenges also affect certain groups of the PAM framework. In regard to the first category, the current PAM has not established performance measurement. As a result, it still cannot conduct the risk and review properly. Then, the nation has the problem of surplus assets which influences its strategy and planning. Skills especially in the asset user institutions, still need to be upgraded. In the second category, transparency, some ministries still have problems dealing with an asset registry which is under the spotlight of the BPK audit. This problem is included in the asset information group of the PAM framework.

The third challenge, law related issues include asset security and regulation and policies. Two types of asset security issues are: vacant properties at risk of being illegally occupied; and a large number of public lands which do not have legal documentation. The former influences the risk and review section of the PAM framework, and the latter affects the strategy and planning group.

### **10.3.2 The Rationales and Challenges of PPP Adoption**

The second investigative question is, ‘What are the rationales and challenges of PPP adoption?’ To address this question, the research analyses the documents and the semi-structured interviews from four case studies. The perspectives of the participating actors are summarised, compared, grouped and analysed. The emerging themes are verified with the result of document analysis as parts of a triangulation process.

### *The rationales*

The research found that there are five motives for PPP adoption namely: accessing external financial resources; gaining the expertise and experiences of the private sector partner; safeguarding the surplus asset; acquiring additional assets for the asset user; and leveraging a bargaining position for an additional budget allocation. The first two motives are no different from the ones of PPP for infrastructure development and are explicitly mentioned in the current regulations. Meanwhile the last three, are unique motives in the PAM context.

### *The challenges*

As in the literature, the research found that PPP adoption comes with challenges arising from the regulations and policies. In addition, there are also issues regarding both contracting partners. Nine regulation related challenges are: the changing of regulations that brings uncertainty; the narrow room for discussion given to the private sector partner; multi interpreted regulations and policies; inflexibility; inappropriate organisational structures; inharmonious policies and coordination between levels of governments; intervention during the tender process; lack of dispute settlement mechanisms; and lack of support for infrastructure projects.

Considering the contracting parties, the research found that the private sector partners seem to lack transparency. The government actors requested more transparency for better accountability. Then, the government especially the asset user, lacks expertise in legal contracting. They have suffered financially due to weaknesses from past partnership contracts. The asset users also lack expertise in preparing a feasibility study. However, this is fully accepted because that kind of study is not the main function of the asset users.

### **10.3.3 The Characteristics of PPPs**

The third investigative question is ‘What are the characteristics of PPPs to be considered in PAM?’ To answer the question, the research analyses the documents and perspectives of actors regarding five aspects of PPPs: the motives, types of projects, flow of payment, risks, and the government orientation toward profit. The research found that four of those five aspects of PPPs in the PAM context are different compared to those of PPPs in infrastructure development.

The motives of PPPs for infrastructure development are mostly concerned with getting access to the external financing. The government also assumes the expertise and experience of the private sector that leads to the projects providing value for money. For PPPs in the PAM context, those

two reasons are also relevant. However, as discussed above, the government agencies especially the asset users or asset guardians have additional motives. They expect that the project will safeguard their vacant properties. They also expect that the private sector partner, besides constructing the project, will deliver additional fixed assets for the use of the agencies. Those agencies thus increase their bargaining position against the MoF for additional budget allocations.

In terms of project types, infrastructure PPPs construct both economic and social infrastructure such as toll roads, ports, hospitals, and schools. Meanwhile PAM related PPPs develop mostly commercial type buildings such as shopping centres, hotels and offices. Not many PAM related PPPs operate in infrastructure projects like the CS-3 and the CS-4. In the CS-3, some of the contracts are related to the sporting facilities, and in the CS-4, the project is the current airport extension.

Regarding the movement of payments, in many infrastructure PPPs, payment flows from the government to the private sector partner to cover its investment. In other cases of infrastructure PPPs, the government gives guarantees to cover the risks of the private sector partner. In property-based PPPs, it is the other way around. The private sector partner pays a contribution to the government for utilising the government properties.

In infrastructure projects, the government orientation is not for profit. This is because the government has to provide infrastructure for its people. However, in PAM related PPPs, the government is mostly profit oriented. The analysis in approving or rejecting project proposals is mostly in economic and financial terms.

#### **10.3.4 The Accountability Concerns**

The second research question is ‘What are the accountability challenges of PPPs in Indonesia’s PAM?’ This question has two investigative questions: ‘What factors do influence accountability in PPPs?’ and ‘How does transparency affect accountability?’ The challenges of PPP accountability can be answered through understanding how the actors view the concept and practice of accountability in their organisation. The thesis analyses the documents to understand how the current policy regulates the practices, and the actors’ perspectives to gain deeper understanding.

Accountability is perceived as involving responsibility, transparency, legal compliance, reporting, auditing, and efficient use of resources. There are two tendencies based on those views: accountability mechanisation and accountability formalisation. The former promises control through overseeing and directing operations and behaviour. The latter promises justice through legal compliance, procedures and law enforcement.

#### *Factors influencing accountability*

Ranked based on the significance of their influence, the factors are risk allocation, cost and benefit, expertise, performance measurement, collaboration and social and economic impact. The rankings are arranged based on the perceptions of the participating actors. Firstly, risk can enhance accountability only if the risk is allocated to the party who can manage it best. Secondly, cost and benefit analysis means if the benefits of the PPP adoption are greater than its cost, the circumstance is conducive to accountability. Thirdly, both parties have to be expert in the field where the project operates. The private sector partners have the expertise and experience to run the project, meanwhile the government officers are expert enough to effectively monitor and control the partnership project.

Fourthly, performance measurement enhances accountability as it provides the basis for reward and punishment. Moreover, performance measurement can be utilised for accountability or performance improvement. The former could mislead by merely focusing on the efficient use of resources, but the latter encourages exploration and learning from experience to improve the performance itself. Fifthly, collaboration between partners generates strong commitment which positively influences accountability. It emerged in the case studies, that the nuance of control is much stronger than collaboration. Control and collaboration have contrasting assumptions and prescriptions as discussed in Chapter 2. Good governance should balance the use of those two approaches to obtain the optimal result (Sundaramurthy & Lewis 2003). Last, the more social and economic impacts, the more accountable the partnership. The social and economic impacts bring public attention to the partnership that in the end will encourage accountability.

#### *Accountability practices in PPP stages*

Based on the accountability framework (Demirag, Dubnick & Khadaroo 2004; Forrer et al. 2010), document analysis, views from actors of PPPs in the Indonesian PAM, the map of accountability forms and factors influencing accountability can be constructed.

According to the literature (Demirag, Dubnick & Khadaroo 2004), in PPPs for infrastructure development the forms of accountability in the initiation, set up, and implementation stages are communal, contractual, and managerial respectively. With internal and external monitoring is the implementation of managerial and parliamentary accountability.

In the PAM context in Indonesia, the forms of accountability in each stage from the perspectives of participating actors are as follows: legal and communal in the initiation, managerial and contractual in the set up, managerial and contractual in the implementation, and last, managerial in the termination stage. The parliament has no direct involvement in the activities. The internal and external monitoring are conducted by internal and external auditors. The BPK as the external auditors reports to the parliament periodically. Then, concerning factors influencing accountability, the factors are as follows; risk, cost and benefit, and expertise in the initiation, expertise and collaboration in the set up, risk, social and economic impact, expertise, collaboration, and performance measurement in the implementation, and collaboration in the termination stage.

#### *Compliance, transparency, and accountability*

From the actors' view regarding compliance and transparency and their impact on accountability, it emerged that actors from the government and private sector have contrasting arguments regarding compliance and performance. As at times, performance achievement conflicts with compliance policy, most government actors choose compliance over performance. However, the private sector actors have the contra view that performance is more important than compliance. This complication creates concerns for accountability, unless both partners manage their differences through control and collaboration.

The research also found that most government actors adhere to legal accountability. Some actors saw reports as being more of a formality than factual and relevant information. This is a sign of opaque transparency in a fraud targeting accountability environment. However, the research did not extend to understanding the phenomena.

#### **10.3.5 Other Findings**

In addition to the main findings, the research also found three issues related to the topic namely the role of a public service unit in asset utilisation, significant support for national sporting activities, and economic impacts from asset-based PPPs. Those three issues do not directly

answer the research questions, but they offer possible solutions to address or to influence the challenges of PPP adoption.

Firstly, in the CS-3, the state asset user does not have any direct transaction with the private sector partner. A public service unit (BLU) conduct the duties of the asset user in all stages of PPPs. Moreover, the BLU is not required to seek approval from the asset manager. In other words, the BLU becomes the representative of the government. It cuts a time-consuming process for the asset user as well as for the asset manager. The flexibility it possesses comes from its organisational structure that follows the 2014 public sector unit law. Under the DGSAM itself, there is also another asset management unit called the Government Property Agency (LMAN), taking the same structural form as the BLU in the CS-3.

Secondly, the CS-3 presents an example of the significant roles of PAM related PPPs in the national program. The nation benefits from the partnership in the form of the maintenance and upgrading of sporting facilities and from the proceeds of the contracts utilising commercial areas in the sporting complex. Last, property-based PPPs contribute positively to national or local economic growth. Some small projects impact on local economic growth, and larger projects contribute more at the provincial or national level. Compared to infrastructure PPPs, PAM related PPPs are seen as much smaller in terms of financial investment. Nevertheless, PAM related PPPs improve the performance of public sector management.

#### **10.4 Contribution to Knowledge**

The research contributes to knowledge from three standpoints. Firstly, the findings of the research enlarge academic understanding at the national level of governance, NPM and PAM in the developing world. While most literature discusses governance, NPM and PAM practices in the context of developed countries, research on developing nations context is still scarce. Discussion of the topic of PPP adoption and its accountability at the national level of PAM practice, is also limited as can be seen in the literature gap section of the methodology chapter. The research gives a comprehensive understanding of the topic because it offers an in depth understanding regarding the PAM practice and its surplus asset problem, the adoption of PPPs to address the surplus asset problem, and the accountability concerns of the PPP adoption.

Next, the research focuses on project level, property-based PPPs. The four case studies display examples of property-based PPP projects from different types of business. The research expands the knowledge regarding project level PPPs by taking into account another variable where the

government property becomes the basis of the PPPs. Perspectives from four groups of participating actors namely the government, the private sector, the auditor, and the member of parliament, enrich understanding of the topic. In addition, the thesis also provides a comparison between infrastructure PPPs and PAM-related PPPs from their adoption motives, types of projects, payment flows, risk, and the government orientation toward profit.

Finally, the thesis participates in the current debates on accountability theory by offering new evidence regarding factors influencing PPP accountability. It also explores those influencing factors and forms of accountability in every stage of PPP process. In the Indonesian PAM practice, PPPs have been adopted for decades, the perspective from experienced actors strengthens the evidence that accountability issues can be discussed in several discourses in which the study has discussed the formalisation and mechanisation approaches.

## **10.5 Policy Recommendations**

The findings from the research not only answer the research questions but also contribute to the policy and practices. The research has captured, compared, and analysed ideas, views, and experiences from actors of various functional, institutional, and managerial level backgrounds. Their unique positions and perspectives complete the big picture of PPP and accountability in the Indonesian PAM context. Their views regarding the burden from the past, the regulation's flaws, and human resources aspect can be important factors for further policy improvement.

### *Cutting the impact of the past unsound practices*

The thesis proposes that to give room for current officers in taking decisions regarding problematic contracts from the past, the asset amnesty program should be discussed and issued immediately. The unsound business practices and contracts of PPPs in the past have continued to loom over current PAM practice as large amounts of time, budget, and human resources have been consumed addressing the problem. Despite that, no significant progress has been made. The idea of a public asset amnesty program offered by one government actor, is worthy of discussion. Given a clear cut off date and the private sector partner agreeing to meet its obligations, all past contracts are allowed to continue until expiring without legal action being taken by the government. Once, the contract expires, the government can decide what policy it will take regarding the assets.



The consequences are severe if the government fails to secure the assets that have been bounded by the past problematic contracts. The private sector partners could take advantage of the weakness of the contract. If the government launches an asset amnesty program, the contracting parties are requested to recognise government rights and they are obliged to obey the current contract until the end of the period.

#### *Applying more flexible regulations*

The thesis argues that it is time for the government to provide more flexibility for their officers in making decisions regarding surplus or underutilised assets. A number of obstacles in PPP practice originate from problems with regulations and policies. Several participating actors wish to reconstruct the current regulations regarding complex asset utilisation, delegation of authority, and the asset utilisation approval process. The current policy requires the asset user to conduct a feasibility study prior to proposing asset utilisation approval from the DGSAM. Considering the asset users' lack of expertise, it would be far more effective if the DGSAM took over the feasibility study as the institution has sufficient human resources both in quantity and quality. The participants do not suggest taking over the asset because such an action would be considered hostile by the asset user and could trigger unproductive disputes between the asset manager and the asset user.

By taking over responsibility for conducting the feasibility study, the length of the initiation and set up stages could be cut significantly. In addition, the quality of the study would be enhanced if it were conducted by the skilled and experienced government valuers of the DGSAM. In regard to operational activities, the DGSAM could fully delegate them to the asset users.

#### *Encouraging innovative policies*

In addition, officers must be encouraged to figure out innovative solutions to utilise government assets. As the current policy regime requires more explanation for actions taken by the officers, it fails to investigate officers who take no or little action to utilise government surplus assets. In order to promote innovations, the asset performance measurement should be applied to all government properties and become the base of rewards and punishment delivery.

Finally, several large PPP proposals consumed a significant amount of time in seeking approval from the DGSAM before the projects could be tendered. This is mostly because of the risk avoiding behaviours of the decision makers among the DGSAM high level management. Their

behaviour is understandable given that the current PAM regulation is prescriptive in nature. Therefore, it is essential to transform the regulation into a performance-based or at least system-based policy that gives more room for the officers' discretion. In addition, the DGSAM could issue policy measurement to differentiate the actor's behaviour whether it is considered to involve fraud and irregularities, or to be an innovative decision to deal with the current situation.

## **10.6 Limitation and Direction**

### **10.6.1 Research Limitation**

Due to the approaches adopted and time as well as cost constraints, the research has limitations in scope and the number of participants. The scope of the research is the PAM practices in the Indonesian central government. The case study has been employed as the research design and four cases have been purposively selected from Indonesian asset-based PPP projects. Those four cases come from only three different ministries as the asset users. It may not be appropriate to generalise the findings of the research to practices in other countries as well as to other Indonesian ministries. Nonetheless, several lessons from the four property-based PPPs pertaining to PAM and the accountability problems can be drawn.

The research may not include all aspects of PPP and accountability issues experienced by those four case studies of the three ministries. Yet, the research captures the most important problems and aspects of PPP adoption and accountability practices considering the responses from the participating actors.

A limited number of participants were selected during the research coming mostly from the MoF, two other ministries, the private sector, auditors and a member of the national parliament. The absence of more members of parliament is a particular limitation. Different findings might emerge should the views of law enforcement, more law makers, academics, and members of civil society be included.

### **10.6.2 Directions for Future Research**

Due to the limitations of this research, besides the PPP accountability issue, recommended future studies in the Indonesian PAM context include asset performance measurement, the role of control and collaboration in property-based partnerships, and human behaviour in risk-involved decision making.

Currently the country has not fully developed their asset performance measurement despite the claim that the government has adopted governance and private sector practices. It is important to realise that asset performance measurement is an indivisible part of modern public asset management.

The thesis has highlighted the paradoxical roles of control and collaboration in governing the PPPs. A further study could investigate more about the assumptions and the prescriptions of those roles in the context of Indonesian PAM or in other developing countries.

Last, another interesting finding is related to the behaviour of high officials from the Indonesian government towards risk. Further research could explore that behaviour and its possible relationship with the three types of regulations: prescriptive, system based or performance based (May 2007).

## **10.7 Conclusion**

This chapter has summarised the thesis by outlining the main findings, the research contribution, limitations, and directions for future studies. The main findings have explained the reasons behind and process of PPP adoption in the Indonesian PAM context by providing analysis on PAM development and challenges, discussing the rationales and challenges of PPP adoption, and identifying the influential characteristics of PPP adoption. Furthermore, by discussing the PPP accountability influencing factors and the relationship between transparency and accountability, the main findings have addressed the second main question regarding the accountability.

The thesis contributes to knowledge by enlarging the academic understanding of PAM practice in Indonesia, focusing on the project level and property-based PPPs, and participating in accountability debates by delivering new evidence of PPP influencing factors. The thesis delivers recommendations to remove the burden of past PPP unsound practice, to amend regulations in order to be more flexible and to encourage innovative policies.



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## Appendices

### Appendix A Invitation to Participate

#### Invitation to participate in a research

**Research title: Key features and accountability of public private partnerships in the context of Indonesian public asset management**

Dear Mr/Mrs/Ms.

In regard to my research titled “Key features and accountability of public-private partnerships (PPPs) in the context of Indonesian public asset management (PAM)”, I am inviting your participation as a respondent. The research is conducted as a part of my doctoral programme at the Institute for Governance and Policy Analysis (IGPA), University of Canberra, Australia. The research aims to analyse the key features and accountability of public-private partnerships in the context of Indonesian public asset management.

You are invited to involve in a 60-minute interview, to discuss about your knowledge, experience and opinions regarding PPPs and PAM. The interview will be recorded with your consent and transcribed for data analysis. You also will be asked to give related documents, if possible, regarding the interview questions.

Your participation is completely voluntary and you may, without any penalty, decline to take part or withdraw at any time without providing an explanation or refuse to answer a question. A consent form for your approval will be provided beforehand.

Only the researcher will have access to the individual information provided by participants. The research outcomes may be presented at conferences and written up for publication. However, the privacy and confidentiality of individuals will be assured at all times.

This research has been approved by the Committees for Ethics in Human Research of the University of Canberra. Should you have any questions about the research, please contact the researcher below.

Thank you for your participation.

Best regards,

**Chief Investigator:**

Rohmat Rohmat  
Institute for Governance and Policy Analysis  
University of Canberra, ACT-2601, Australia  
Tel. +61 [REDACTED]  
Email: [REDACTED]

**Supervisor:**

Prof. John Halligan  
Institute for Governance and Policy Analysis  
University of Canberra, ACT-2601, Australia  
Tel. +61 [REDACTED]  
Email: [REDACTED]

## **Undangan untuk berpartisipasi dalam riset**

### **Judul riset: Karakteristik dan akuntabilitas kerjasama pemerintah swasta dalam konteks manajemen aset publik di Indonesia**

Yth Bpk/Ibu,

Dalam rangka riset saya yang berjudul “Karakteristik dan akuntabilitas kerjasama pemerintah swasta (KPS) dalam konteks manajemen aset publik (MAP) di Indonesia”, saya memohon kesediaan Bapak/Ibu menjadi partisipan. Riset ini dilaksanakan sebagai bagian dari program doctoral saya di Institute for Governance and Policy Analysis (IGPA), University of Canberra, Australia. Adapun tujuan dari riset ini adalah untuk menganalisis karakteristik utama dan aspek akuntabilitas dari KPS dalam konteks MAP di Indonesia.

Bpk/Ibu diharapkan bersedia untuk terlibat dalam sebuah wawancara selama sekitar 60 menit, untuk membahas pengetahuan, pengalaman dan opini terkait KPS dan MAP. Wawancara akan direkam dan ditranskripsi untuk analisis data lebih lanjut. Bila memungkinkan, Bpk/Ibu dapat menyampaikan dokumen yang terkait dengan topik wawancara.

Partisipasi Bpk/Ibu sepenuhnya bersifat sukarela dan dapat, tanpa ada konsekuensi apa pun, menolak untuk ambil bagian atau menarik diri kapanpun tanpa memberikan keterangan, atau menolak memberikan jawaban atas pertanyaan yang diajukan. Formulir persetujuan akan disampaikan sebelumnya.

Hanya Peneliti yang akan memiliki akses atas informasi perseorangan yang disampaikan oleh Bpk/Ibu.. Hasil riset mungkin akan disajikan dalam seminar dan dituangkan dalam bentuk publikasi. Namun, dalam semua publikasi tersebut, data pribadi dan kerahasiaan akan selalu dilindungi setiap saat.

Riset ini telah mendapat persetujuan dari Komite Etik Riset Humaniora, University of Canberra. Bilamana Bapak/Ibu memiliki pertanyaan, dapat menghubungi peneliti atau supervisornya di bawah ini.

Terima kasih atas partisipasinya

Salam,

#### **Peneliti:**

Rohmat Rohmat  
Institute for Governance and Policy Analysis  
University of Canberra, ACT-2601, Australia  
Tel. +61 [REDACTED]  
Email: [REDACTED]

#### **Supervisor:**

Prof. John Halligan  
Institute for Governance and Policy Analysis  
University of Canberra, ACT-2601, Australia  
Tel. [REDACTED]  
Email: [REDACTED]

## Appendix B Participant Information Form

### Participant Information Form *Formulir Informasi bagi Partisipan*

**Research Title:** Key features and accountability of public-private partnerships in the context of Indonesian public asset management

**Judul Riset** : Karakteristik dan akuntabilitas kerja sama pemerintah swasta (KPS) dalam konteks manajemen aset publik (MAP) Indonesia.

#### **Researcher/Peneliti**

Name (*Nama*) : Rohmat  
Institute (*Institusi*) : Institute for Governance and Policy Analysis, University of Canberra  
Phone (*Telpon*) : +61 [ ] and (dan) + [ ]  
Email (*Email*) : [ ]

#### **Supervisor/Pembimbing**

Name (*Nama*) : Prof. John Halligan  
Institute (*Institusi*) : Institute for Governance and Policy Analysis, University of Canberra  
Phone (*Telpon*) : +61 ( [ ] )  
Email (*Email*) : [ ]

#### **Research Aim**

The aim of this research is to analyse the key features and accountability of public-private partnerships (PPP) in the context of Indonesian public asset management (PAM). The objectives of this research are to examine the present development in PPP practices and PAM in Indonesia, the extent to which PPPs in PAM have achieved their objectives and to assess the accountability of PPPs in PAM. This is an academic research whose outcome will be written in a thesis of a doctoral program at University of Canberra.

#### ***Tujuan Riset***

Riset memiliki maksud untuk melakukan analisis atas karakteristik dan akuntabilitas kerjasama pemerintah swasta (KPS) dalam konteks manajemen aset publik (MAP) di Indonesia. Adapun



tujuan dari riset ini adalah untuk meneliti: perkembangan terkini *dari praktik KPS dan MAP di Indonesia, sejauh mana KPS dalam MAP telah mencapai tujuannya dan aspek akuntabilitas KPS dalam MAP. Ini merupakan riset akademis yang hasil akhirnya akan dituangkan dalam sebuah disertasi program doctoral di University of Canberra.*

### **Benefits of the Research**

The research is expected to contribute to the knowledge, public policy making and government practices. In the knowledge, the research will provide further evidence regarding the adoption of PPPs in PAM perspective. In the public policy making, the research is going to deliver a new outlook from the people involved both from Indonesian authorities and the private companies. Last, it is also projected that the research will gather ideas and opinion from relevant parties from which the accountability challenge of PPPs in Indonesian PAM could be enhanced.

### ***Manfaat Riset:***

Riset ini diharapkan memberikan kontribusi kepada ilmu pengetahuan, penyusunan kebijakan publik dan praktik pemerintahan. Dalam ilmu pengetahuan, riset ini akan memberikan perspektif baru mengenai penerapan KPS dalam MAP. Dalam penyiapan kebijakan publik, riset ini akan menghasilkan cara pandang baru bagi para pihak yang terlibat baik di pemerintah maupun di swasta. Terakhir, diharapkan pula bahwa riset ini akan mengumpulkan beragam ide dan opini dari pihak-pihak yang berkepentingan dimana permasalahan akuntabilitas dapat dijabarkan dengan seksama.

### **General Outline of the Research**

The research employs case study as its design because it tries to answer the research questions, that start with 'why' and 'how' and the researcher has no control over this contextual phenomenon of PPP and PAM. Furthermore, several cases are purposefully nominated with the rationale that those cases could serve the diverse as well as influential criteria. A multi-case study enlarges the analytical advantage of the research by enabling analytical comparison. The cases selected are PPPs utilising public asset under the jurisdiction of Indonesian Ministry of Finance.

The research methods in data collection are document analysis and in-depth interviews. The document analysis is expected to deliver contextual data in the research field which could be developed more in arranging questions for the next steps of research. The convenience of using document analysis offers benefits for the research process because it is considered to be efficient in collecting process, already available in many institutions, and non-reactive. The documents to be analysed include but not limited to government policies and regulation, project specified information, and public materials from media coverage regarding the government policies and their implementation.



Data will be coded and classified to simplify and decrease the amount of data from an enormous variation of different spectacles. The researcher will utilise thematic grouping in coding, classifying and analysing the data. Furthermore, a qualitative data analysis software namely NVivo will be intensely utilised. The output of this analysis is a selection of clear and convincing extracted information and its relation to the research questions and literature.

### ***Gambaran Umum Riset***

*Riset menerapkan desain studi kasus karena riset ini berusaha menjawab pertanyaan-pertanyaan yang dimulai dengan 'kenapa' dan 'bagaimana' dan peneliti tidak memiliki pengaruh terhadap fenomena KPS dan MAP. Lebih lanjut, untuk memperluas analisis, beberapa kasus dipilih dengan seksama dengan maksud untuk memenuhi persyaratan keberagaman dan keberpengaruhan. Kasus yang dipilih adalah KPS yang menggunakan aset publik dibawah yurisdiksi Kementerian Keuangan Indonesia.*

*Tiga metode riset dalam mengumpulkan data, akan digunakan meliputi analisis dokumen dan wawancara secara mendalam. Analisis dokumen akan memberikan informasi terkini atas bidang yang diteliti dan hasilnya dapat dikembangkan lebih lanjut dalam penyiapan pertanyaan untuk tahapan riset berikutnya. Kenyamanan dalam penggunaan analisis dokumen menawarkan beberapa keuntungan bagi riset yaitu sifatnya yang efisien, sudah tersedia di berbagai institusi, dan tidak reaktif. Dokumen yang akan dianalisis meliputi namun tidak terbatas pada kebijakan dan peraturan pemerintah, informasi spesifik atas suatu proyek, dan bahan-bahan publik dari media massa terkait kebijakan pemerintah dan implementasinya.*

*Data yang dikumpulkan akan diberikan kode dan, diklasifikasi untuk menyederhanakan dan mengurangi data dari berbagai sudut pandang. Peneliti akan menggunakan pengelompokan berdasarkan topik dalam melakukan coding, klasifikasi dan analisis. Selanjutnya, sebuah aplikasi analisis data kualitatif bernama NVivo akan dimanfaatkan secara intens. Output dari aplikasi ini adalah sekumpulan informasi yang jelas dan meyakinkan atas pertanyaan riset dan literatur yang ada.*

### **Participant Involvement**

Government officer and their private counterparties who agree to participate in the research will be requested to:

- 1) Take part in an in-depth interview within upon agreed time and venue. During 60-minute interview, the participants will articulate their knowledge, experience and opinions regarding PPPs and PAM. The conversation will be recorded with the participant's consent and transcribed for data analysis.
- 2) Present relevant documents in regard to the interview questions.

Participation in the research is completely voluntary and participants may, without any penalty, decline to take part or withdraw at any time without providing an explanation or refuse to answer a

question. Should the participants withdraw from the research, the researchers will destroy the records of the participants. All records both in forms of hardcopies and digital recording will be destroyed, unless the participant agrees that the researcher may retain and utilise the information obtained prior to the participant's withdrawal.

### ***Keikutsertaan Partisipan***

*Pejabat Pemerintah dan swasta yang setuju untuk berpartisipasi dalam riset ini akan diminta untuk:*

- 1) Berpartisipasi dalam interview dengan peneliti dengan jadwal dan tempat yang disepakati. Dalam 30 menit waktu wawancara, Partisipan akan menceritakan pengetahuan, pengalaman dan pendapat terkait KPS dan MAP. Pembicaraan ini akan direkam atas ijin Anda dan selanjutnya akan ditranskrip untuk data analisis.*
- 2) Memberikan dokumen yang relevan terkait dengan pertanyaan wawancara.*

*Partisipasi dalam riset ini adalah sepenuhnya sukarela dan partisipan berhak, tanpa ada sanksi, menolak berpartisipasi atau menarik diri dari partisipasi kapanpun tanpa perlu memberikan penjelasan, atau menolak menjawab suatu pertanyaan. Jika partisipan menarik diri dari riset ini baik sebagian maupun keseluruhan, peneliti akan menghormati keputusan tersebut dan menghancurkan catatan sesuai permintaan partisipan. Penghancuran tersebut meliputi hardcopy dan softcopy yang tersimpan secara digital.*

### **Confidentiality**

Only the researcher will have access to the individual information provided by participants. Privacy and confidentiality will be assured at all times. The research outcomes may be presented at conferences and written up for publication. However, in all these publications, the privacy and confidentiality of individuals will be protected.

### ***Kerahasiaan***

*Hanya peneliti yang memiliki akses atas informasi individu yang disampaikan partisipan. Privasi dan kerahasiaan partisipan dijamin setiap waktu. Hasil riset mungkin dipresentasikan dalam suatu konferensi dan ditulis untuk publikasi. Namun, dalam semua publikasi tersebut, privasi dan kerahasiaan individu akan dilindungi.*

### **Anonymity**

All reports and publications of the research will contain no information that can identify any individual and all information will be kept in the strictest confidence.

**Anonimitas**

*Semua laporan dan publikasi riset tidak mengandung satu pun informasi yang dapat mengidentifikasi perseorangan dan semua informasi akan disimpan dengan tingkat kerahasiaan tertinggi.*

**Data Storage**

The information collected will be stored securely on a password protected computer throughout the project and then stored at the University of Canberra for the required five year period after which it will be destroyed according to university protocols.

**Penyimpanan Data**

*Informasi yang diperoleh akan disimpan secara aman dalam suatu komputer yang ber-password sepanjang masa proyek ini dan selanjutnya disimpan di University of Canberra selama periode lima tahun yang disyaratkan untuk selanjutnya akan dihancurkan sesuai dengan ketentuan universitas.*

**Ethics Committee Clearance**

The project has been approved by the Human Research Ethics Committee of the University (HREC – 16-226).

**Persetujuan Komite Ethic**

*Riset ini telah disetujui oleh Human Research Ethics Committee of the University (HREC –16-226).*

**Queries and Concerns**

Queries or concerns regarding the research can be directed to the researcher and/or supervisor. Their contact details are at the top of this form. You can also contact the University of Canberra's Research Ethics & Integrity Unit. You can either contact Mr Hendryk Flaegel via phone +61 2 [REDACTED], Ms Maryanne Simpson via phone 02 [REDACTED] or email [REDACTED]

If you would like some guidance on the questions you could ask about your participation please refer to the Participants' Guide located at

<http://www.canberra.edu.au/ucresearch/attachments/pdf/a-m/Agreeing-to-participate-in-research.pdf>

***Pertanyaan dan Perhatian***

*Pertanyaan dan hal-hal yang menjadi perhatian berkaitan dengan riset ini dapat diarahkan kepada peneliti dan/atau pembimbing. Detail kontak mereka ada di bagian atas formulir ini. Anda juga dapat menghubungi University of Canberra's Human Research Ethics & Integrity Unit, Mr Hendryk Flaegel melalui telephone +61 [REDACTED], Ms Maryanne Simpson melalui telephone +61 2 [REDACTED] atau email [REDACTED]*

*Jika Anda ingin mengetahui lebih lanjut mengenai beberapa petunjuk atas pertanyaan yang dapat Anda ajukan mengenai partisipasi Anda, silahkan merujuk ke the Participants' Guide di <http://www.canberra.edu.au/ucresearch/attachments/pdf/a-m/Agreeing-to-participate-in-research.pdf>*

## Appendix C Informed Consent Form

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### Consent Form

#### Research Title

“Key features and accountability of public-private partnerships in the context of Indonesian public asset management”

#### Consent Statement

I have read and understood the information about the research. I am not aware of any condition that would prevent my participation, and I agree to participate in this research. I have had the opportunity to ask questions about my participation in the research. All questions I have asked have been answered to my satisfaction.

Please indicate which parts you agree to by putting a tick mark in the relevant box:

- ☐ I agree to participate in an interview with the researcher.
- ☐ I agree to this interview being recorded.
- ☐ I agree to provide supporting data such as documents, if available, to the researcher in relation to the interview questions.

Name : .....

Signature : .....

Date : .....

A summary of the research report can be forwarded to you when published. If you would like to receive a copy of the report, please include your mailing (or email) address below.

Name : .....

Address (email) : .....

---

## ***Formulir Persetujuan***

### ***Judul Riset***

*“Karakteristik dan akuntabilitas kerja sama pemerintah swasta (KPS) dalam konteks manajemen aset publik (MAP) di Indonesia”*

### ***Pernyataan Persetujuan***

*Saya sudah membaca dan memahami informasi mengenai riset ini. Saya tidak melihat ada suatu kondisi yang menghalangi saya untuk berpartisipasi, dan saya setuju untuk berpartisipasi dalam riset ini. Saya telah diberikan kesempatan untuk bertanya mengenai partisipasi saya dalam riset ini. Semua pertanyaan yang saya sampaikan sudah dijawab dengan memuaskan.*

*Silahkan isikan pada bagian yang Anda setuju dengan memberikan tanda centang di kotak yang sesuai:*

- ☐ *Saya setuju untuk berpartisipasi dalam interview dengan peneliti.*
- ☐ *Saya setuju interview ini untuk direkam.*
- ☐ *Saya setuju untuk memberikan data pendukung seperti dokumen, jika tersedia, kepada peneliti yang berkaitan dengan pertanyaan dalam interview.*

*Nama : .....*

*Tanda tangan : .....*

*Tanggal : .....*

*Ringkasan laporan riset ini dapat dikirimkan kepada Anda jika sudah dipublikasikan. Jika Anda berkenan untuk mendapatkan salinan ringkasan laporan riset tersebut, silahkan tuliskan alamat surat (atau email) di bawah ini.*

*Nama : .....*

*Alamat (email) : .....*

## Appendix D Letter of Support



**To whom it may concern**

January 27, 2017

Rohmat is a PhD student in the Institute for Governance and Policy Analysis, University of Canberra under my supervision. The topic of his research is "Key features and accountability of public-private partnership (PPP) in the context of Indonesian public asset management (PAM)". The research aims to analyse the key features and accountability of PPP in the context of Indonesian PAM. The research is expected to contribute to knowledge, public policy making and government practices in Indonesian public asset management.

Your participation in the project is highly appreciated. Should you have any enquiries regarding this project, please do not hesitate to contact Rohmat or me.

*John Halligan*

Professor John Halligan  
Institute for Governance and Policy Analysis  
Phone: + [REDACTED]  
Email: [REDACTED]

<http://www.governanceinstitute.edu.au/>

**Research & PhD Enquiries**  
Phone: +61 2 6201 2755

Office  
Building 23, Level B  
University of Canberra  
Australia ACT 2601





## Appendix E The Participants

<b>Codes</b>	<b>Levels</b>	<b>Institutions</b>	<b>Roles</b>
P01	Director	MoF - DGSAM	Asset manager
P02	Director	MoF - DGSAM	Asset manager
P03	Director	MoF - DGSAM	Asset manager
P04	Director	MoF - DGSAM	Asset manager
P05	Head of subdivision	MoF - DGSAM	Asset manager
P06	Director	MoF - DGSAM	Asset manager
P07	Head of subdivision	MoF - DGSAM	Asset manager
P08	Head of subdivision	MoF - DGSAM	Asset manager
P09	Head of division	MoF - DGSAM	Asset manager
P10	Head of subdivision	MoF - DGSAM	Asset manager
P11	Head of subdivision	MoF - DGSAM	Asset manager
P12	Head of division	MoF - DGSAM	Asset manager
P13	Director	MoF - DGSAM	Asset manager
P14	Director	MoF - DGSAM	Asset manager
P15	Head of subdivision	MoF - DGSAM	Asset manager
P16	Head of division	MoF - DGSAM	Asset manager
P17	Chief of Regional Office	MoF - DGSAM	Asset manager
P18	President Director	MoF - DGSAM	Asset manager
P19	Director	MoF - DGSAM	Asset manager
P20	Head of division	MoF - DGSAM	Asset manager
P21	Head of subdivision	MoF - DGSAM	Asset manager
P22	Head of division	MoF - DGSAM	Asset manager
P23	Director	Ministry M1	Asset user
P24	Head of division	Ministry M2	Asset user
P25	Head of division	Ministry M3	Asset user
P26	Director	Ministry M3	Asset user
P27	Director	Ministry M4	Asset user
P28	Director	Private sector	Private sector
P29	Director	Private sector	Private sector
P30	Director	Private sector	Private sector
P31	Director	Private sector	Private sector
P32	Division Manager	PSA3	Asset user
P33	Legal Manager	PSA3	Asset user
P34	Director	PSA3	Asset user
P35	Auditor	BPK	Auditor
P36	Auditor	BPKP	Auditor
P37	Auditor	MoF Inspectorate - General	Auditor
P38	Auditor	MoF Inspectorate - General	Auditor
P39	Auditor	MoF Inspectorat - General	Auditor
P40	Member of Parliament	House of Representatives	Member of parliament



## Appendix F The Interview Questions

Questions	Participant Groups				
	A	B	C	D	E
Opening questions					
1. How long have you been involved in public asset management?	√	√	√	√	√
2. What problems or challenges do exist in managing those assets?	√	√	√	√	√
3. What are the causes of those problems/challenges?	√	√	√	√	√
PPP Related questions					
4. What are the reasons the adoption of PPP in utilising the assets in your organisations?	√	√	X	√	√
5. a. Are there some difficulties, obstacles and challenges in PPP? b. What is the root cause of those difficulties, obstacles and challenges?	√	√	X	√	√
6. a. What type of PPPs are adopted in utilising your assets? b. Moreover, why?	√	√	X	√	√
7. a. Are there some specific problems related to those types of PPPs? b. What is the root cause of those specific difficulties, obstacles and challenges?	√	√	X	√	√
8. What are the aspects to be considered as the success factors of PPPs?	√	√	X	√	√
9. What are the aspects to be considered as the barriers of PPPs?	√	√	X	√	√
Accountability related questions					
Initiation stage					
10. What are the processes before the assets utilised through a PPP?	√	√	X	√	√
11. Who are involved in the process?	√	√	X	√	√
12. a. Have you considered alternative uses of the assets before it is proposed to be put in a PPP? b. What are the alternative uses?	√	√	X	√	√
Set up					
13. a. What factors should be considered before entering a tender process? b. Could you please explain more of every factor above?	√	√	√	√	√
14. What are the risks do you consider at this stage?	√	√	√	√	√

Questions	Participant Groups				
	A	B	C	D	E
15. What expertise do you expect from the tendering companies?	√	√	X	√	√
16. How do you value your company before entering the tender?	X	X	√	X	X
Monitoring					
17. What are the mechanisms to control the performance of the private party?	√	√	√	√	√
18. How do you make sure that the private parties behave based on the contract?	√	√	X	√	√
19. How do you measure that your performance meets the contract requirement?	X	X	√	X	X
20. What are the problems or challenges during this stage? Please explain the cause of those problems?	√	√	√	√	√
21. What happens if the private party obtains supernormal profit or experience long term losses?	√	√	√	√	√
22. Is it possible for you to amend the contract for any reasonable events?	√	√	√	√	√
23. Do you have any flexibility in doing the business within the PPP?	X	X	√	X	X
Termination					
24. What is the mechanism in the termination period?	√	√	√	√	√
25. What are the problems or challenges during this stage? Please explain the cause of those problems?	√	√	√	√	√

Interview questions in Bahasa Indonesia:

### Daftar Pertanyaan Interview

Daftar Pertanyaan	Grup				
	A	B	C	D	E
Pembukaan					
1. Berapa lama the BPK/Ibu berkecimpung di manajemen aset publik?	√	√	√	√	√
2. Apakah permasalahan dan tantangan yang dihadapi selama ini?	√	√	√	√	√
3. Apakah penyebab dari semua permasalahan/tantangan tersebut?	√	√	√	√	√
Pertanyaan terkait KPS					
4. Apakah latar belakang mengadopsi KPS dalam memanfaatkan aset dalam organisasi the BPK/Ibu?	√	√	X	√	√
5. a. Apakah kesulitan, hambatan dan tantangan dalam KPS? b. Apakah akar masalahnya?	√	√	X	√	√
6. a. Apakah tipe KPS yang dipilih? b. Apakah alasannya?	√	√	X	√	√
7. a. Apakah masalah spesifik terkait dengan tipe KPS tersebut? b. Apakah penyebabnya?	√	√	X	√	√
8. Apakah aspek yang menjadi faktor kunci kesuksesan KPS?	√	√	X	√	√
9. Apakah aspek yang menjadi hambatan KPS?	√	√	X	√	√
Pertanyaan terkait akuntabilitas					
Tahapan inisiasi					
10. Apakah proses yang harus dilalui dalam suatu KPS BMN?	√	√	X	√	√
11. Siapa sajakah yang terlibat?	√	√	X	√	√
12. a. Apakah the BPK/Ibu sudah mempertimbangkan alternatif penggunaan aset tersebut sebelum diajukan untuk dimanfaatkan melalui KPS? b. Apakah alternative lain tersebut?	√	√	X	√	√
Set up					
13. a. Apakah faktor yang harus dipersiapkan sebelum mengikuti tender? b. Mohon dijelaskan lebih lanjut?	√	√	√	√	√
14. Apakah risiko yang timbul pada tahapan ini					
15. Apakah keahlian (expertise) yang the BPK/Ibu harapkan dari peserta tender?	√	√	√	√	√

Daftar Pertanyaan	Grup				
	A	B	C	D	E
16. Bagaimana the BPK/Ibu menilai perusahaan sendiri sebelum mengikuti tender?	X	X	√	X	X
Pengawasan					
17. Bagaimana mekanis control kinerja partner swasta?	√	√	√	√	√
18. Bagaimana memastikan bahwa partner swasta bertindak sesuai kontrak?	√	√	X	√	√
19. Bagaimana the BPK/Ibu mengukur kinerja perusahaan sesuai dengan kontrak?	X	X	√	X	X
20. What are the problems or challenges during this stage? Please explain the cause of those problems?	√	√	√	√	√
21. Apakah yang terjadi bila partner swasta memperoleh keuntungan yang luar biasa atau mengalami kerugian yang terus menerus?	√	√	√	√	√
22. Apakah ada celah untuk merevisi kontrak untuk alasan tertentu?	√	√	√	√	√
23. Apakah the BPK/Ibu memiliki fleksibilitas dalam menjalankan bisnis di skema KPS ini?	X	X	√	X	X
Terminasi					
24. Bagaimana mekanisme terminasi kontrak?	√	√	√	√	√
25. Apakah masalah atau tantangan dalam tahapan ini? Mohon dijelaskan penyebab dari masalah tersebut?	√	√	√	√	√

## Appendix G Ethics Approval



UNIVERSITY OF  
CANBERRA

29 November 2016

APPROVED - Project number 16-226

Mr Rohmat Rohmat  
Institute for Governance and Policy Analysis  
University of Canberra  
Canberra ACT 2601

Dear Rohmat,

The Human Research Ethics Committee has considered your application to conduct research with human subjects for the project titled: ***"Key features and accountability of public private partnerships in the context of Indonesian public asset management."***

**Approval is granted until 31 December 2018**

The following general conditions apply to your approval.

These requirements are determined by University policy and the ***National Statement on Ethical Conduct in Human Research*** (National Health and Medical Research Council, 2007).

<b>Monitoring:</b>	You must, in conjunction with your supervisor, assist the Committee to monitor the conduct of approved research by completing project review forms, and in the case of extended research, at least annually during the approval period.
<b>Reporting Adverse Events</b>	You must, in conjunction with your supervisor report any unexpected adverse events or complications that occur anytime during the conduct of the research study or during the follow up period after the research. Please refer these matters promptly to the HREC. Failure to do so may result in the withdrawal of the Ethics approval.
<b>Discontinuation of research:</b>	You must, in conjunction with your supervisor, inform the Committee, giving reasons, if the research is not conducted or is discontinued before the expected date of completion.
<b>Extension of approval:</b>	If your project will not be complete by the expiry date stated above, you must apply in writing for extension of approval. Application should be made before current approval expires; should specify a new completion date; should include reasons for your request.
<b>Retention and storage of data:</b>	University policy states that all research data must be stored securely, on University premises, for a minimum of five years. You must ensure that all records are transferred to the University when the project is complete.
<b>Contact details and notification of changes:</b>	All email contact should use the UC email address. You should advise the Committee of any change of address during or soon after the approval period including, if appropriate, email address(es).

Yours sincerely  
Human Research Ethics Committee

Maryanne Simpson  
Research Ethics & Integrity  
Research Services  
T [redacted]  
E [redacted]

T +61 (0)2 [redacted]  
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ACT 2601 Australia

Australian Government Higher Education  
Registered Provider Number  
(CRICOS) #00212K





## Appendix H Risk Indicators and Preferred Risk Allocation

Risk factor		Lam et al. (2007)	Ng and Loosemore (2007)	Li et al. (2005)	Arndt (1998)	Wang and Tiong (2000)	NTSA (2004)	VDTF (2001)
Political	Termination of concession by Government		Public			Public	Public	
	Expropriation and nationalization		Private	Public		Public	Public	
	Political opposition			Public			Public	
	Change in law	Share	Private	Share	Share	Share	Share	Public
	Unstable government	Public		Public				
	Project approval and permit	Private	Share		Share			Private
	Influential economic events			Private				Private
Construction	Changes in industrial code of practices			Private	Share		Share	Private
	Availability of finance			Private	Private			Private
	Improper design	Private	Private	Private	Private	Private	Private	Private
	Insolvency of subcontractors	Private		Private	Private	Private	Private	
	Quality risk	Private	Private	Private	Private	Private	Private	Private
	Site safety	Private			Private			
	Availability of labor/materials	Private		Private		Public		
	Ground conditions	Public	Private	Private				Private
	Site availability	Public	Private	Public	Share			Private
	Construction/design changes	Private	Public				Public	Public
	Labor disputes and strikes	Private				Private		Private
	Land use		Public	Public			Public	
	Waste of materials		Private	Private	Private			
	Construction cost overrun		Private	Private	Private	Private	Private	Private
	Construction completion		Private	Private	Private	Private	Private	Private
	Supporting utilities risk		Public		Share	Share		
	High financial cost			Private	Private	Private		
	Unproven engineering techniques			Private	Private	Private	Private	Private
	Protection of geological and historical objects					Private		Private
Operation	Operation cost overrun		Private	Private	Private		Private	
	Operator default		Private		Private	Private		Private
	Quality of operation		Private		Private	Private	Private	Private
	High maintenance cost			Private	Private		Private	Private
	Frequency of maintenance			Private	Private		Private	Private
	Low operating productivity			Private	Private	Private	Private	
	Residual assets risk				Private		Private	Public
Legal	Condition of facility					Private		Private
	Contractual risk	Public				Share		
	Third party tort liability	Public		Private				
	Ownership assets		Private			Share	Private	Share
Market	Insolvency of Concession company					Private	Private	
	insufficient income			Private	Private	Private		
	Fluctuation of material cost (by government)		Public			Public	Public	Public
	Fluctuation of material cost (by private sector)		Private			Private	Private	Private
	Tariff change		Private	Private		Private	Private	Private
	Market demand change		Private	Private	Share	Private	Share	
Economic	Exclusivity					Share		Private
	Inflation risk	Share	Share	Private		Share	Share	Share
	Interest rate		Share	Private		Share	Private	
Other	Foreign currency exchange					Public	Private	
	Force majeure		Share	Share	Share		Share	Share
	Residual risk		Public	Private				
	Weather	Share		Private	Public		Public	

Source: Ke et al. (2010)

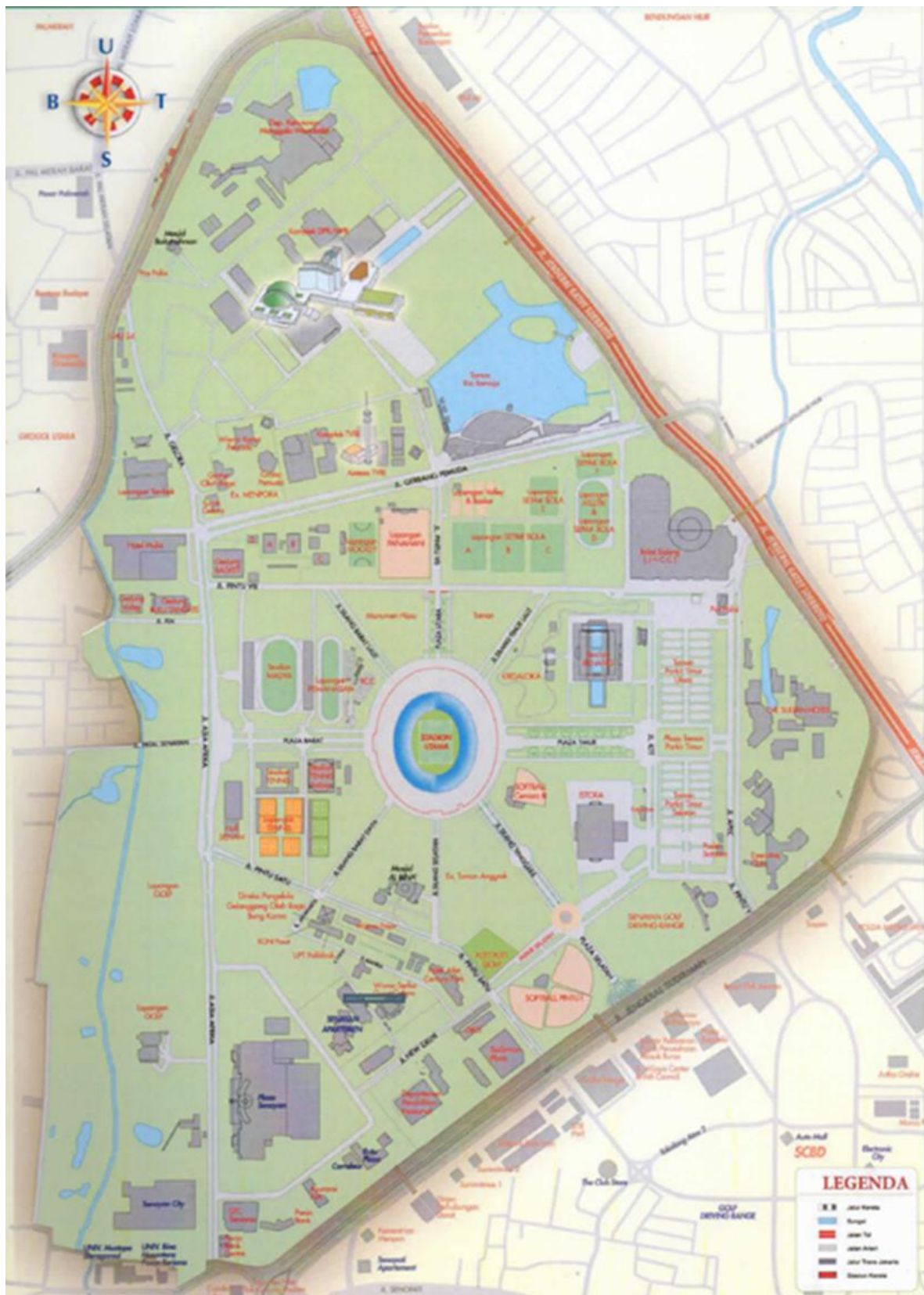


## Appendix I Research on PAM, PPPs and Accountability

No.	Literature	Issues	Countries
1	Brinkerhoff and Brinkerhoff (2011)	Good governance	Australia
2	Conway (2006)	PAM reform	
3	Duffield (2005)	PPP practices	
4	Hodge et al. (2017)	Good governance in PPPs	
5	Mahmood et al. (2014)	Policies and guidelines	
6	Watson (2003)	Challenges for public accountability	
7	Boardman, Poschmann and Vining (2005)	PPPs in infrastructure	Canada
8	McKellar (2006a)	Management framework	
9	McKellar (2006b)	Delivery models	
10	Vanier (2001)	Management tools	
11	Grubišić, Nušinović and Roje (2009)	Efficiency	Croatia
12	Bizet (2006)	PAM framework	France
13	Schulte and Ecke (2006)	Empirical study	Germany
14	Abednego and Ogunlana (2006)	Governance and legal aspect of PPP	Indonesia
15	Hanis (2012)	PAM framework	
16	Hanis, Trigunarsyah and Susilawati (2011)	Local PAM practices	
17	Lukito (2018)	PAM and climate change	
18	Mardiasmo (2012)	PAM practices	
19	Mardiasmo, Sampford and Barnes (2012)	Governance in PAM	
20	Prayoga (2016)	Good governance	
21	Maryouri (2017)	PPP delivery framework	
22	Wulan (2005)	Indonesian toll roads	
23	Abdul Aziz and Jahn Kassim (2011)	PPPs in public housing	Malaysia
24	Abdullah et al. (2012)	PAM practices	
25	Abdullah, Razak and Pakir (2011)	PAM practices	
26	Ismail and Harris (2014a)	PPP rationales	
27	Phua, Ling and Phua (2014)	PPPs in health sector	
28	Yusof et al. (2012)	Space management	
29	Dow et al. (2006)	PAM reform and framework	New Zealand
30	Liu and Wilkinson (2011)	Procurement techniques	
31	Provost (2011)	PPP implications	
32	Chua (2014) Chua (2014)	Public housing	Singapore
33	Demirag, Dubnick and Khadaroo (2004)	Accountability in PPPs	The UK
34	Forrer et al. (2010)	Public accountability questions	
35	Kaganova and Polen (2006)	Benefits of PPP in PAM	The UK & US

<b>No.</b>	<b>Literature</b>	<b>Issues</b>	<b>Countries</b>
36	Den Heyer (2011)	NPM in developing countries	Other developing countries
37	Hood (1995)	NPM themes in 1980s	NA
38	Oehler-Sincai (2008)	Strength & weaknesses of NPM	NA
39	Poister, Aristigueta and Hall (2015)	Performance management	NA
40	Steets (2010)s	Accountability in policy partnerships	NA

## Appendix J The Map of the GBK (Case Study CS-3)





## Appendix K The Corruption Perception Index in Asia Pacific Region: 2019

Countries	Scores	World Ranks
New Zealand	87	1
Singapore	85	4
Australia	77	12
Hong Kong	76	16
Japan	73	20
Bhutan	68	25
Taiwan	65	28
Brunei Darussalam	60	35
Korea, South	59	39
Malaysia	53	51
Vanuatu	46	64
Solomon Islands	42	77
China	41	80
India	41	80
<b>Indonesia</b>	<b>40</b>	<b>85</b>
Sri Lanka	38	93
Timor-Leste	38	93
Vietnam	37	96
Thailand	36	101
Mongolia	35	106
Nepal	34	113
Philippines	34	113
Pakistan	32	120
Laos	29	130
Maldives	29	130
Myanmar	29	130
Papua New Guinea	28	137
Bangladesh	26	146
Cambodia	20	162
Korea, North	17	172
Afghanistan	16	173

Source: Transparency International (2020)